Student Loans Company Limited
Annual Report and Accounts 2005-06

Company Number: 02401034

Contents

Foreword

The student loan application and payment process for the academic year 2005/2006 has been the most efficient and successful ever, which became clear in the early summer when the processing of applications by Local Authorities and the Student Loans Company was running at around 100,000 ahead of the same period the previous year.

In addition, we greatly **enhanced our customer website for England, ready for its transfer to the government's portal for public access to services - Directgov. We also introduced Student Finance Wales, a bilingual website for students based in Wales, and Student Finance Northern Ireland and the associated** ***contact centre facilities.***

A very significant area of our work during the year to 31 March 2006 was the submission that we made to the Review of Higher Education Student Finance Delivery in England by the Department for Education and Skills. We were delighted by the announcement by the Minister for Higher Education of his endorsement of the Review's key recommendations, which were very much in line with our submission.

The Review's recommendations present a vision for a modern student finance service designed around the customer and based on-line, allowing students to apply for financial support at the same time as they apply for a place in Higher Education.

The Minister has since confirmed that his preferred delivery model is a centralised model requiring one organisation, using centralised technology to deliver it and that this will be the Student Loans Company. We recognise the challenge ahead for us that this brings and are pleased to take responsibility for delivering a new way of working that we believe will materially improve the service to our customers.

During 2005/2006, over 120 colleges and universities signed up for our bursaries administration system, the Higher Education Bursary and Scholarship Scheme (HEBSS). A key initiative in strengthening our working relationships with universities and colleges was the establishment of the HE Services website, providing a full range of information and a new secure portal through which we work with colleges and universities on the administration of the HEBSS service.

During the year, we also assumed full responsibility from the Department for Education and Skills for the specialist Darlington-based unit which administers fee loans for European Union students in England, Wales and Northern Ireland and the Department's customer helpdesk.

It has been a year in which, on many different fronts, we have successfully set out to improve and enhance communications in line with our underlying commitment to a greater customer focus. Our customer satisfaction has improved consistently, as our monthly independent surveys have shown.

Our computer system for the assessment process, linking with 172 local authorities, was comprehensively reviewed by the leading IT consultancy, Gartner, who concluded that it is not only fully capable of delivering high performance in terms of the current needs of student finance, but is configured to a high specification which will cope easily with future growth demands. We were delighted too that our strategic software partner, the Oracle Corporation, decided to award us their annual Global Award for our internet-based computer system and this was followed by a similar recognition from Hewlett Packard, our equipment suppliers.

This Annual Report gives full details of our activities and performance in relation to Ministerial Targets and it also publishes the Independent Assessor's Report.

Ralph Seymour-Jackson
Chief Executive

Management Commentary

Purpose and Roles

Last year we provided financial support to nearly one million customers

The Student Loans Company Limited administers government-funded loans and grants to students throughout the United Kingdom.

We are responsible, 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 and HM Revenue & Customs, for student support delivery in the United Kingdom. Our primary roles are to:

- Deliver support to eligible students pursuing higher education;
- Pay to Higher Education Institutions the public contribution towards tuition fees for England, Wales and Northern Ireland;
- 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.

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 one million customers last year, of whom 871,000 received student loans. In addition, the Student Loans Company paid tuition fees totalling £462.9 million to higher education institutions. The total payments for the year were £3.8 billion, of which £2.9 billion was in maintenance loans.

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 - and administer on behalf of the private sector 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 trading 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. It is 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 and associated regulations

Operating Environment

The *End-to-End Review* sets out a vision for a modernised service

The political, economic, social and technological environments within which we operate influence our activities.

Political

We continually monitor the political environment and take action as necessary to ensure we comply with legal requirements.

REVIEW OF HIGHER EDUCATION STUDENT FINANCE DELIVERY IN ENGLAND

The Department for Education and Skills in England has stated that achieving the Government's goal of *access to a world-class higher education system for all those with the potential to benefit* depends on having an efficient and effective student finance service.

On 31 January 2006, the Department for Education and Skills published the findings of the Review of Higher Education Student Finance Delivery in England (known as the *End-to-End Review*). The review was focused on customer service, value for money and improving collections performance.

The *End-to-End Review* set out a vision for a modernised service to deliver clear information, faster decisions, timely payments, accurate repayments and efficient recovery. This will set out a radical agenda for change over the next few years.

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

The Higher Education Act 2004 for England and Wales introduced deferred variable tuition fees, increased grants and new Higher Education Institution bursary arrangements as from the academic year 2006/07.

The new arrangements have resulted in additional services that the Student Loans Company must provide for the administration of tuition fee loans. To ensure the best delivery we are:

- Strengthening our partner relationships with providers of higher education
- Interfacing with the Office For Fair Access and the Department for Employment and Learning for Northern Ireland to ensure that agreements are in place with higher education institutions charging variable tuition fees before allowing bursary transactions to take place
- Developing a bursary administration service, called the Higher Education Bursary and Scholarship Scheme (HEBSS), for higher education institutions which was endorsed by Universities UK and the Standing Conference of Principals (SCOP)

The Government is taking measures to widen access to higher education for all

The traditional three-year, full-time model is shifting to meet changing student needs

WIDENING ACCESS

The Government is taking robust measures to promote participation and widen access to higher education for all. For the Student Loans Company, this will signal changes to student funding processes and volumes.

Overall participation in higher education has increased significantly over the past 20 years but there is still a gap between socio-economic groups. The Act/Order's introduction of variable fees and higher grants ensures that those from a non-traditional socio-economic background are no worse off than they would have been under the old arrangements.

The traditional 'three-year, full-time' model is shifting to meet changing student needs, and additional funding for part time students was recently introduced in England and Northern Ireland. Increasing flexibility in delivery and study approaches can also lead to wider access.

The Government will review the impact of variable fees in 2009, including the impact of fees on demand for higher education, the fee cap, and the effect on the widening access agenda.

The Student Loans Company will be ready to respond to changes in policy and volumes over coming years.

DEVOLVED ADMINISTRATIONS

Devolution in the United Kingdom has introduced a considerable increase in the complexity and content of the products, programmes and services that we provide. In the past, we supplied a largely similar service across England, Wales, Northern Ireland and Scotland. Now, we must ensure that our product portfolio reflects the different legislative requirements for the Department for Education and Skills for England, the Department for Training and Education at the Welsh Assembly, the Department for Employment and Learning for Northern Ireland and the Enterprise, Transport and Lifelong Learning Department at the Scottish Executive.

This multi-product, multi-stakeholder environment has also led to greater demands for separate projects, with a corresponding increase in demands on our staff, systems and infrastructure.

These arrangements are becoming increasingly complex, meaning that we now have to look at new ways of supporting and delivering these requirements.

Prospects for the economy may influence student support delivery

The United Kingdom's productivity will be partly driven by the skills at the country's disposal

Economic

Prospects for the economy may, directly or indirectly, influence student support delivery in a number of ways.

HIGHER EDUCATION

Future graduate employment and earnings will determine loan repayment cash flow and, together with the cost of Government borrowing and price inflation, influence the cost of student support policy directly.

Graduate career trajectories may also simultaneously feed back into future demand for places in higher education.

In the longer term, the UK's productivity and competitiveness will be driven in part by the skills at the country's disposal. The Foster Review sets out a clear call to action for further education while the Leitch Review highlighted our critical skills dependency out to 2020. Within the higher education sector, there have been calls for measures to protect teaching of strategic subjects in light of falling demand, which could lead to changes in our stakeholders' policy for funding support.

The Student Loans Company needs to be able to cope with changing sponsor needs and be able to implement new products.

INTERNATIONAL INFLUENCES

Other influencing factors include the relative performance of other economies, the investment they are prepared to make in higher education and the extent to which this is met through local or overseas provision. These global changes may impact the UK's higher education policy decisions, and the way that higher education is delivered.

Economic decisions may also lead to changes in the way that students undertake their study, while EU enlargement, higher education demand and the pace of economic convergence in new member countries of the EU will affect student loan recovery profiles directly.

GOVERNMENT POLICY

Any changes in Government economic policy that alter the numbers of students seeking financial support, and the degree of support provided, may affect our business volumes and complexity.

Economic forecasters vary in their assessment of future public services funding flexibility. The Comprehensive Spending Review of 2007 will determine the funds that can be released for student finance delivery and the scope for further investment. Major changes to existing funding models will affect our existing processes and systems.

The continuing drive for service and efficiency from public service providers presents us with numerous challenges, including front-line process efficiency, support services efficiency and people management.

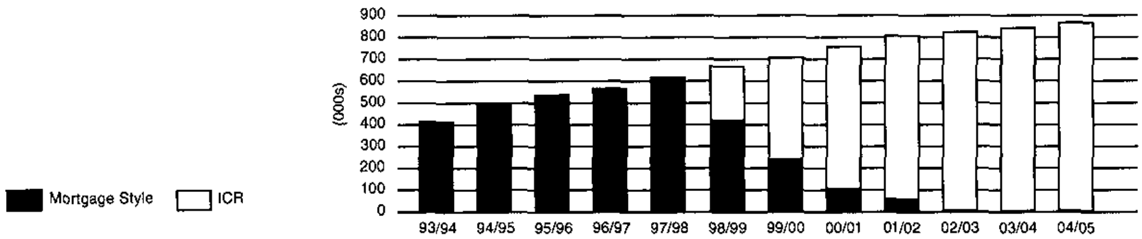
The loan portfolio is forecast to reach £60 billion by 2015

Social

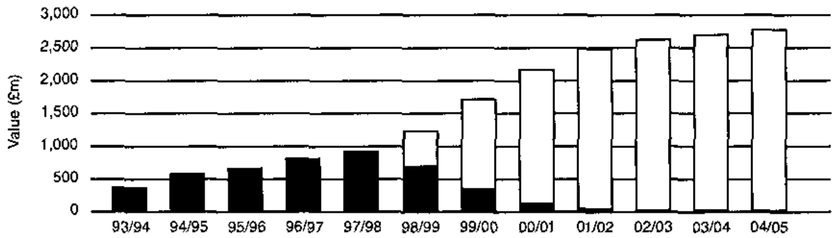
If demand for higher education mirrors demographic trends, then we can expect to experience increasing loan volumes for the next four years, as the number of 18-20 year olds rises in England and Wales.

After 2010, the number of 18-20 year olds declines rapidly, reaching its 2006 levels again in 2011 or 2012 and continuing to decline thereafter for several years. In Scotland and Northern Ireland, the decline in this segment of the population is already underway. This may be offset by the increasing percentage of young people achieving the qualifications needed to enter higher education, and the already considerable population of higher education students outside the traditional age 18-21 full-time study model.

The loan portfolio is growing rapidly and the Department for Education and Skills forecast it will reach £60 billion by 2015, with the total number and total value of loans paid each year increasing. The following graphs show trend data from 1993/94 to 2004/05. Note that the data are based on academic year, and 2005/06 figures will not be available until September 2006.



Total number of loans paid each year



Total value of loans paid each year

Technological

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

The spread of broadband connectivity is a key influencer on many aspects of 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 in England.

In April 2005, we offered an online application service for student finance. We are currently promoting this service to students and anticipate a higher uptake for the 2006/07 academic year. The online application function is also available to students in England through the Directgov platform.

Mobile phone technology is also an influence on our operations. To help us communicate more effectively with our customers, we are piloting the introduction of direct SMS messaging to students throughout 2006. Once the pilot is complete, results will be analysed and a decision made about the future of the service in 2007.

We are continually monitoring broad trends in the software market to inform our build, buy and sourcing decisions.

DELIVERING TRANSFORMATIONAL GOVERNMENT

The Cabinet Office's *Transformational Government Strategy* has a vision of better using technology to deliver public services and policy outcomes that have an impact on citizens' daily lives.

The strategy challenges existing public service delivery models and identifies transforming delivery into public services centred around citizens as the most pressing priority for technology investment and business change between 2007 and 2011. The key changes and new cultures are to be embedded irreversibly by 2011.

To meet these requirements, we need to improve our delivery capability, allowing us not only to meet increasingly demanding service standards but also to build for future flexibility. This will require us to examine our supporting strategies:

- **Communications** - to ensure we hear and understand the views of our customers, stakeholders, partners and staff, and engage with them effectively.
- **People** - to ensure we have the right leadership, management, technical and service delivery skills.
- **Process** - to maintain relationships across our diverse stakeholder base, and provide effective programme management.
- **Technology** - to enable powerful leverage of ICT and physical assets, including customer-focused channel management, in support of current and future business goals.

Organisational Capability

We have a demonstrated commitment to training and development

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

The Student Loans Company is committed to fulfilling staff potential and managing performance and rewards, supported by sound principles and disciplines. As at 31 March 2006, we employed 1,126 full time equivalent staff.

RECRUITING AND RETAINING SKILLED STAFF

Effective recruitment is essential to our human resources strategy. Recruitment will continue to be a key activity for us in the future, as we take on more increasingly diverse projects and new initiatives. Recruiting to different geographical areas, such as Darlington in the North East of England and Colwyn Bay in North Wales, will bring new challenges, including the introduction of different methods of recruitment than are currently used. This will include a greater emphasis on technology to assist the recruitment process. Another challenge that arises from this diversity is the rising demand to recruit people with different skill sets than those we have previously hired.

We will also continue to look at different recruitment markets than those recognised as 'traditional' in the past. This will include addressing areas of equality and diversity, and will ensure compliance with new Age Discrimination legislation.

A large number of those who leave the Student Loans Company do so within six months of commencing employment, reflecting the difficulties of recruiting in a highly competitive environment. A full review of the recruitment process will be carried out in 2006/07, in particular to identify ways of evaluating personal characteristics and motivation as well as key competencies.

TRAINING AND DEVELOPMENT

We have been accredited with Investors in People status since 2000 and have a demonstrated commitment to training and development, aimed at ensuring that our employees have access to learning and development opportunities, and bridging skill and knowledge gaps that 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. We have also recently implemented a Stress at Work Policy, aimed at reducing employee stress levels.

We are now preparing for re-accreditation to Investors in People, due in September 2006.

We must build and sustain the right information and communications technologies

Infrastructure

We must build and maintain the right information and communications technologies and building environments to ensure maximum performance and sustainable value for money.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

The Student Loans Company has worked to establish a robust ICT development and infrastructure platform that provides flexibility, performance, resilience, security and value for money.

Huge amounts of computer data are stored or transmitted through a structure which serves the customer relationship management system, our two loan administration systems for paying and collecting student loans, various on-line access portals and a range of internal systems to run the business. Clusters of linked computers are used for the different needs of these systems. These clusters have been designed to enable a virtually unlimited amount of additional functions to be introduced as required.

The 'data hub' - a centralised information store - allows for rapid deployment of new services without impacting existing operations. We currently operate 150 discreet server computers, combining a total of 350 processors, which gives optimum system reliability. Data storage is managed through the Storage Area Network which uses dual fibre connections for security and includes multiple copies of critical data, stored off-site to prevent loss in a catastrophic event.

We maintain a number of websites and web-based applications, such as our corporate website and customer transaction sites under the service brands Student Finance Direct (England), Student Finance Northern Ireland and Student Finance Wales. Before new products go live, we put in place service level agreements with the respective Government bodies, setting out how we will maintain these services at an optimal level.

Over 2006/07 we anticipate we will deal with more than 3 million incoming telephone calls. To help us deal with these volumes, we have a sophisticated Interactive Voice Response (IVR) system, which reduces the number of calls passed to the contact centre by providing automated responses to frequently asked questions. We are Call Centre Association accredited, meaning that we meet the requirements established by the call centre industry's professional body to operate an effective call centre.

Further work is needed to sustain our ICT capability. We are now working on developing a long-term approach with our sponsors to ensure that we plan the right capability levels for the future.

In March 2006 we opened a bi-lingual contact centre in Wales

We aim to strengthen the Student Loans Company's position as a trusted and effective partner

BUILDINGS

The Student Loans Company operates in four locations: central Glasgow, Hillington, Colwyn Bay in North Wales and Darlington in North-East England. Our head office, based in Bothwell Street in central Glasgow, handles our corporate functions and customer services and staff in Hillington, near Glasgow Airport, manage the large volumes of mail that we dispatch and receive, as well as high volume printing, scanning and distribution.

In late March 2006, we opened a bi-lingual Customer Support Office in Colwyn Bay. This facility provides current and potential students and their sponsors with information about student finance. The establishment of this centre is a key step towards the Welsh Assembly's commitment to providing students who normally live in Wales with the best possible support while they study. The bi-lingual centre provides a service tailored to the needs of these students.

The EU Students Team based in Darlington, which deals with the administration of tuition fees for EU students, was transferred from the Department for Education and Skills' operations to the Student Loans Company operations this year together with the student finance customer helpdesk.

Relationships

We aim to build and sustain the right relationships with all of our stakeholder groups, and strengthen the Student Loans Company's position as a trusted and effective partner to deliver student support.

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 in England 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 Devolved Administrations - the Department for Employment and Learning for Northern Ireland, the Department for Training and Education at the Welsh Assembly, and the Enterprise, Transport and Lifelong Learning Department at the Scottish Executive - 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 Scottish Executive attend Main Board meetings on behalf of Scottish Ministers as one of the shareholders.

We are continually seeking to improve customer relationships

Other representatives from the Devolved Administrations are invited to attend Main Board meetings, held ten times per year, 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 interaction with higher education institutions.

Our partnership with HM Revenue & Customs will be influenced strongly by the outcome of the *End-to-End Review*, and closer working arrangements will be essential in the future.

We are also building relationships with other partners, such as the Universities and Colleges Admissions Service (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*.

STRATEGIC PARTNERS AND SUPPLIERS

We are committed to maintaining and further developing our relationships with strategic partners and key suppliers such as Oracle, Hewlett Packard, Xerox, Avaya, Cisco, the Royal Mail, British Telecom, Cap Gemini, Pitney Bowes and Kodak.

CUSTOMERS

Our customers include current borrowers and their sponsors and those who are repaying their student support loans.

The *End-to-End Review* sets out a vision for a modern student finance system for England that meets customer expectations. We are continually seeking to improve customer relationships and monitor satisfaction closely. We will continue to undertake regular customer surveys and analyse the trends in complaints received, in order to ensure we maintain and, where possible, enhance our service standards.

The Student Loans Company has established a student representative forum, the Student Consultative Group, which enables us to share our plans and receive feedback.

Our change programme will enable us to join up the business and connect with other government agencies

Change management

To deliver effective services to our stakeholders, we must ensure that we are able to handle new and emerging requirements and technologies appropriately. We must deliver quality services, on time and on budget.

Managing change effectively in this rapidly shifting environment is integral to how we deliver these services. Change management plays an essential, central role within the company.

Our change management planning falls into two parts: stakeholder change capability and internal improvements to our change capability.

STAKEHOLDER CHANGE CAPABILITY

We are responsible for delivering systems and processes to enable initiatives arising from the implementation of Government policies to be deployed effectively and efficiently.

To meet changing demands, our stakeholders frequently commission service delivery changes through individual projects.

Our change programme will not only enable us to integrate processes for our core operations but also to join up the business 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 methodology and are regularly reviewed by the Office of Government and Commerce (OGC). OGC, an independent body of the Treasury, works with public sector organisations to help them improve delivery from programmes. They carried out a review of the Student Loans Company in January 2006 to help ensure our programmes have the correct knowledge, understanding, processes and funding in place to enable delivery. The results were positive, with the OGC concluding that the 2006/07 programme is on target to deliver and risk has been minimised.

Processes are in place for timely, effective and appropriate responses to a large scale crisis

INTERNAL IMPROVEMENTS TO CHANGE CAPABILITY

To effectively deliver the requirements of our customers and our funding bodies, we must streamline and redefine our business processes, develop new ways of working and make changes to our services and products. Our success in responding to the changing business environment will depend heavily on how we apply new technology and adopt new working practices.

During 2006/07, we will carry out a series of initiatives to improve the sophistication of the approach, methods and processes used in the end-to-end management of change, building skills and knowledge and putting in place appropriate software to standardise and consolidate information.

Business continuity

To help ensure our business continuity, we must make sure that processes are in place for timely, effective and appropriate responses to any large scale crisis.

A detailed business continuity exercise was carried out in December 2005 to test our crisis readiness.

The Crisis Management Team, Business Recovery Team and other support recovery teams, including Marketing and Communications, Human Resources, Customer Services and Facilities Management, all took part in the exercise.

The simulation was followed by reflection and feedback by all those involved. That feedback has been incorporated in our business continuity plans that outline key functions and processes to carry out in the event of a crisis situation.

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 we are accountable to Ministers for our performance.

This section lists our five Corporate Objectives, 11 Key Performance Indicators (KPIs) and their associated measures for the 2005-2006 financial year 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 the 2006/07 financial year. If a more detailed definition of each KPI is required, this can be obtained either by contacting the Company's Information Office or by visiting the Company's website; www.slc.co.uk

This year we have changed the reporting method for many of our KPIs to financial year rather than academic year.

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 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)	99.5%	✔
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)	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)	94.7%	✔
F	Production of student correspondence	90% or more (in any one month)	99.2%	✔
G	Initiation of Bankers' Automated Clearing System payments	99% or more (in any one month)	99.4%	✔

1 The Service Level Agreement requires an end to end response time of five seconds or better mean average across any working week. There were difficulties in aggregating the true performance across all Local Authorities with the Internet response time measured in real time changing every 15 minutes. It was therefore difficult to establish as a true figure. It has, however, been possible to confirm that the target was achieved.

Performance

The seven elements of KPI 1 were achieved at the year end. No technical issues arose in the course of the year that materially impacted on the achievement of these targets. Of the seven different Service Level Agreement Performance elements, only two of those fell beneath target at any stage and this was only for a single month in the year. Appropriate mitigating actions were taken with the effect of ensuring that targets were achieved.

Changes for 2006/07

The 2006/07 target for Measure G will change to:

i. 95% or more by close of working day following receipt of HEI confirmation (in any one month)

ii. 99% by close of second working day following receipt of HEI confirmation (in any one month)

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	10% or more in academic year 05/06	2.99%	x

Performance

This is a measure of all customers who would otherwise complete an application form, including a subset of sponsors as well as student applicants. Sponsors are not able to submit their information online unless the student they are supporting has applied online.

The online application facility was released in April 2005; though subsequent take-up fell below expectations. One reason for this was that it only became available two days before the published deadline date for Non Means Tested applications.

To improve on this performance we have enhanced the online environment and released revised customer service websites under the service brands Student Finance Direct in England, Student Finance Northern Ireland and Student Finance Wales in December 2005. The online application facility is also now available through Directgov, the public services website.

Changes for 2006/07

In 2006/07, the target will change to reflect the differing requirements of our customers, to:

(i) New students 10% or more;

(ii) Returning students 5% or more;

(iii) Sponsors 6% or more.

Objective 2: Collections

To maintain accurate borrower records to enable timely collection of income contingent student loans by HMRC and to continue to collect mortgage-style student loans effectively, so that the Government secures good value-for-money in providing loans.

The overall 2005-2006 target for income contingent loans was for the Company to maintain accurate borrower records and accounts to ensure that all borrowers who are eligible are identified, traced and accurately assessed for repayment. The full year target was set at 86% and the outturn position was 86.62%, meaning that the target was achieved.

The three Key Performance Indicators set out below (KPIs 3 to 5) are the underlying lead indicators which were set for the Company in support of this overall target.

Key Performance Indicator 3: Income Contingent Repayment:
Borrowers with no National Insurance Number

	Measure	Target	Actual	Achieved
A	% of borrowers with no National Insurance Number (NINO) **by** Statutory Repayment Due Date (SRDD)	0.5% or less	1.58%	x
B	% of borrowers with no NINO **after** passing SRDD	0.8% or less	1.25%	x

Performance

It was recognised early in the reporting cycle that these targets were unlikely to be achieved. Projects to deliver the required improvements and benefits, such as proactive outbound calling, are currently being progressed and other initiatives are being developed to ensure future targets are met.

CHANGES FOR 2006/2007

Targets for 2006/2007 have been revised, with a target measure A of 1.4% and a target for Measure B of 1.2%. 2007/2008 targets have been set at 0.25% and 0.7% respectively.

Key Performance Indicator 4: Income Contingent Repayment:
Borrowers' employment details obtained during the matching process

	Measure	Target	Actual	Achieved
A	% of borrowers - the Student Loans Company has *identified current employment status* **by** SRDD.	92.9% *or more*	86.89%	x
B	% of borrowers - the Student Loans Company has identified current employment status **after** SRDD.	94.4% or more	95.19%	✔

Performance

Measure A: Without the ability to enforce the provision of information, it became clear by the half year point that the target was not going to be met. The quality of contact details is fundamental to the effectiveness of an enforcement process. The Student Loans Company will work with HM Revenue & Customs to match contact details.

Measure B: Contributing factors to the achievement of this target have been improved efforts in operational contact with customers and a natural rise in graduates entering stable employment.

CHANGES FOR 2006/07

Measure A: The 2006/07 target has been set at 87.5% or more, with the 2007/08 target to be set at 94.7% or more.

Measure B: The 2006/07 and 2007/08 target for this measure is 97.0% or more.

The number of this KPI will be changed to KPI 6.

Two new Income Contingent Repayment KPIs will be introduced into this objective in 2006/07. These are:

KPI 4: Income Contingent Repayment: Reduce percentage of borrowers with a NINO but citizen not found:

A. percentage of borrowers who have a NINO but the citizen is not found by the HMRC Student Loans business **by** SRDD. Target 3.0%.

B. percentage of borrowers who have a NINO but the citizen is not found by the HMRC Student Loans business **after** passing the Statutory Repayment Due Date. (SRDD). Target 1.0%

KPI 5: Income Contingent Repayment: Reduce percentage of borrowers not currently in any repayment channel.

A. percentage of borrowers who are due to be in repayment but who are not currently in any repayment channel. Target 5.1%.

Key Performance Indicator 5: Income Contingent Repayment:
Borrowers who drop out, of whom the Student Loans Company is not notified

	Measure	Target	Actual	Achieved
A	% of borrowers who have a correctly revised Statutory Repayment Due Date within 3 months of their withdrawal date.	38% or more	54.23%	✔

Performance

This target was achieved by a considerable margin.

CHANGES FOR 2006/2007

Although this will not be a formal KPI in 2006/07, performance of this measure will continue to be monitored.

Key Performance Indicator 6: Mortgage style loans arrears collection

	Measure	Target	Actual	Achieved
A	£million of arrears collected for mortgage style loans.	£36m or more	£31.6m	x

Performance

The number of accounts in overdue status was 9.3% below that which was originally budgeted for.

Although this target was not achieved, there were a number of initiatives launched through the year which improved performance and efficiency. These include the launch of Smith Lawson and Company, our in-house collections brand, the introduction of text to speech technology and soft skills training for staff.

CHANGES FOR 2006/2007

Targets for this KPI in 2006/07 will be based on the percentage of loans in arrears. The measure will be:

Minimise percentage of loans that leave deferment status and go into arrears status, with a target of 15%.

The number of this KPI will be changed to KPI 7.

Key Performance Indicator 7: Mortgage style loans collection

	Measure	Target	Actual	Achieved
A	% collection rate for mortgage style loans	88.9% or more	89.2%	✔

CHANGES FOR 2006/2007

The name of this KPI will change to Mortgage Style Arrears Collection. The measure will be:

Minimise percentage of loans in arrears status, with a target of 9%.

The number of this KPI will be changed to KPI 8.

Objective 3: Customer Satisfaction

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

Key Performance Indicator 8: Customer Satisfaction

	Measure	Target	Actual	Achieved
A	% of customers positively rating the Student Loans Company overall service	92% or more	93.2%	✔
B	% rating individual measures of service (in any given month) positively in customer survey	83% or more	83.9%	✔

Performance

We continue to enjoy customer confidence in the service that we deliver. In the 2006/07 year we expect to see demand rising, and high priority is attached to ensuring that we continue to provide excellent levels of customer service throughout the year.

Our customers are entitled to expect accurate, timely support payments delivered by a modern, high-quality service that offers choice, convenience, accessibility and flexibility. We will provide a range of further enhancements to the on-line environment that will encourage take-up and reduce the burden placed on customers applying for support. Where possible we will continue to simplify the application process and introduce data sharing arrangements that reduce the need for customers to supply information already known to the government and higher education partners.

For the year to 31 March 2006, we improved customer online application systems. In April 2005 we launched the customer portal for online applications for the 2005/2006 academic year. Major improvements and enhancements to the operation of the customer website were carried out in December. In addition, the Student Finance Wales website was launched in two languages in December 2005, followed in March 2006 by the launch of the Student Finance Northern Ireland website. Final preparations were being made during the year for a series of major improvements and changes, which would see the customer portal function being added to the Welsh and Northern Ireland websites, and a simultaneous launch across all three of the websites of the 2006/07 online application facility which saw two radical changes. The first was the removal of the need for a customer's signature and the second allowed, for the first time, for the assessment letter to be sent out on the same day the application is made.

We also introduced text messaging as an alternative way of contacting and reminding customers of key dates in their educational calendar. We opened and managed an extended hours contact centre to give students further choice of when to contact us.

We worked with the education departments in England, Wales and Northern Ireland to ensure a common brand identity is presented to students; Student Finance Direct, Student Finance Wales and Student Finance Northern Ireland. These are presented jointly, with the award authorities communicating with students in a transparent and cohesive way.

We also made it easier for students to make direct repayments and publicised this facility through websites, leaflets and brochures. In addition, we improved the availability and detail of information on repayments through the three public websites - Student Finance Direct, Student Finance Wales and Student Finance Northern Ireland.

CHANGES FOR 2006/07

For 2006/07 we have itemised more clearly the individual measures of customer satisfaction for Measure B, with each measure having its own target. The number of this KPI will be changed to KPI 9.

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 9: Funding Authority Service

	Measure	Target	Actual	Achieved
A	To develop a shared expectation with funding authorities on data, information and advice to be provided by the Student Loans Company and trial a survey of shareholder satisfaction against expectations.	Survey issued in Novemeber 2005 and March 2006.	Completed	✔

Performance

Two Funding Authority Service surveys have been conducted since the half year review, in November 2005 and March 2006.

The response to the survey in March was much improved on the November result. The General Service *Excellent/Good* rating rose 17.3% to 81.6%, while the rates for Specific Service rose from 71.9% to 75%. Results from both surveys will be averaged, resulting in a baseline figure with which all other surveys will be compared. Initial results indicate that one of the main interests for our stakeholders related to improving the way we provide management information. Considerable focus will be given to streamlining the provision of this information in 2006/07.

In addition, the survey will be undertaken quarterly and the company's relationship manager for each stakeholder will review the responses in the surveys and commission action plans to address areas of concern. Between these surveys, the relationship manager will meet with the stakeholder to provide feedback on the action plans and test their efficacy. The action plans, in conjunction with these feedback sessions should, over time, improve the performance of the KPI.

CHANGES FOR 2006/07

The measure for this KPI in 2006/07 will be:

Percentage satisfaction of Funding Authorities against their expectations for the provision of comprehensive, timely and relevant data and information. The target is the average of the November 2005 and March 2006 results, + 3% by fourth quarterly survey.

The number of this KPI will change to KPI 10.

Objective 5: Value For Money (VFM)

Within a transparent and flexible budgeting framework, both to deliver the Student Loans Company day-to-day business and projects to budget, time and agreed quality standards, and to 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 10: Flexible Resourcing Performance

	Measure	Target	Actual	Achieved
A	Operating budget	Variance between -5% and +2.5% of budget	-0.35%	✔
B	Project budget	Variance between -5% and +2.5% of budget	-19.4%	x

Performance

Measure A: A number of over and under-spends across the Company's budget resulted in an annual outturn underspend of £163,000.

Measure B: The programme of projects was well planned and was delivered to time and quality standards and within budget. However, the final outturn position for the 2005/06 Project Programme showed an underspend outside the set parameters of the target, due in part to a delay in the start of the development work on certain areas of the programme but also in relation to specific licences and leases.

In total, the outturn on the project programme was £11,835,000 against a budget of £14,684,000 - a variance of £2,849,000. This variance was split into £1,183,000 of underspend and £1,666,000 of slippage*. The slippage figure was agreed by stakeholders. (*Slippage is where funds move from one financial year to another to complete the deliverables of the project.)

Delivering Value for Money

We will continue to deliver best value and improve the efficiency and effectiveness of processes and operations. We need to ensure that we make efficiency gains to provide long-term business benefits and minimise costs. We are currently focussing on four key initiatives to support this priority:

1. **Efficiency strategy.**

The independent review of public sector efficiency, conducted by Sir Peter Gershon CBE in July 2004, has placed significant challenges on us to deliver efficiencies both in our ongoing business and in our change programme. We aim to implement a strategy to underpin best-value service provision in terms of customers, quality and staff and to provide the means to measure savings and ensure the informed allocation of funds to achieve business objectives. We have successfully delivered a reduction in operating costs in the 2005/06 financial year, as part of our three-year plan to achieve the requirements of the *Gershon Review*.

2. **Finance and procurement system.** We plan to introduce an improved financial and procurement system. At a high level, this will aid us in understanding, controlling and driving forward the business, through the on-line availability of management information, financial analysis and cost modelling. On a day-to-day basis, the new system will deliver greater end-to-end processing and seamless and automated business processes, and reduce the need for manual processing. In procurement terms, the system will enable us to support the government's commitment to e-commerce, through the adoption of electronic e-procurement tools and techniques.

3. **Effective contract management.** Much of our operation and change programme depends on effective working relationships with private sector partners. We will continue to monitor and improve our management of partner contracts to deliver value for money and ensure that procurement processes achieve the targeted levels of savings.

4. **Other revenue streams.** We will continue to operate services on behalf of the private sector debt sale owner and have introduced a revenue stream from the higher education sector, following the launch of the Higher Education Bursary and Scholarship Scheme.

CHANGES FOR 2006/07

This KPI will change to KPI 11: Flexible Resourcing: Operating and Programme Budgets and Overall Financial Performance. The measures will be:

A. percentage monthly variance of spend from revised forecast for operating budget profile, with a target of + or - 2.5%;

B. percentage monthly variance of spend against initial programme/project capacity budgets, with a target of + or - 5%;

C. percentage monthly variance against profiled budgets for projects or programmes, as and when business cases are agreed, and variance against agreed programme contingency and feasibility funds, both with a target of + or - 5%;

D. percentage variance against Grant in Aid baseline, with a target of a 15% reduction on the 2004-05 England and Wales Grant in Aid baseline by March 2008;

E. Increase in operational costs from approved projects and transferred functions restricted to an agreed £ target (to be agreed by end of June 2006).

Key Performance Indicator 11: Service Level Agreement performance:
Percentage of the essential elements of the Service Level Agreement are met

	Measure	Target	Actual	Achieved
A	To develop and report against a measure for the acceptable delivery of projects to agreed standards as assessed by the project's external sponsor.	Reporting approach is now developed and is currently being trialled.	Completed	✔

Performance

KPI 11 provides a view on how effective management of the Corporate Programme is. A new Corporate Programme Board has been established, chaired by the Chief Executive and attended by the Senior Responsible Officers of ongoing projects, together with the Programme Manager from Change Management. Main Board members, including the assessor from the Department for Education and Skills, and non-executive directors are provided with a copy of the Corporate Programme Board report which sets out current issues and risks.

The Student Finance Implementation Project 2006/07 Project Board formally recorded that the quality, timing and completeness of project information presented to them was satisfactory and met their requirements, and agreed that stakeholders are now kept fully up to date with activities and issues through regular stakeholder Steering Groups.

CHANGES FOR 2006/2007

This KPI will change to KPI 12: Effective Programme/Project Delivery. The measure will be:

Programme level assessment by the Student Loans Company agreed with project and programme boards of:

- the successful delivery of funding authority programmes and projects to agreed standards (time, cost, quality); and
- effective and efficient management of overall programme of change, including cross cutting risks and change management capacity and capability.

The target will be to ensure that each funding authority remains confident in the Student Loans Company's ability and capacity to deliver, as indicated in their agreement with our 'green' assessment of:

i) Likelihood of successful delivery of their overall change programme (quarterly lead indicator);

ii) Actual completion of individual funding authority projects and overall change programmes as agreed by the relevant project and programme boards (annual lag indicator)

The name of Objective 5 will also change, from Value for Money to Efficient and Effective Use of Resources.

Products and Services

During 2005/2006 we provided a range of administrative services for education funding in the United Kingdom.

MAIN SUPPORT FOR FULL TIME STUDENTS

We paid full time students under the Income Contingent Repayment loans scheme as appropriate to their assessed eligibility. We paid university tuition fees for those students who qualified for a fee grant from England, Wales and Northern Ireland. We paid higher education grants for students from England and Wales.

DEPENDANTS' GRANTS

We paid full time students grants to meet additional costs they incur because of dependants. These are the Adult Dependant's Grant, the Parent's Learning Allowance, and the Childcare Grant. We no longer pay the Lone Parent's Grant; students who used to receive this now receive Parent's Learning Allowance and Childcare Grant instead.

TRAVEL AND CARE LEAVERS' GRANT

We paid the 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. We paid the Care Leavers' Grant to help cover summer holiday costs for students in England and Wales who had been in care before studying.

SUPPORT FOR PART TIME AND POSTGRADUATE STUDENTS

While there is no general government maintenance support for postgraduate students, there are some special grants. We paid Course Grants and Fee Grants to postgraduate and part time students in England and Wales who qualified. We also paid part-time maintenance loans for students in Scotland.

DISABLED STUDENTS' ALLOWANCES

We paid Disabled Students' Allowances to those students in full time, part time and postgraduate study in England and Wales who qualified.

REPAYMENT OF TEACHER LOANS

This is a special arrangement whereby we 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.

SCOTTISH GRADUATE ENDOWMENT SCHEME

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

SUPPORT FOR STUDENTS FROM THE EUROPEAN ECONOMIC AREA (EEA)

We paid Tuition Fee Grants to students who qualify as EU nationals. For such residents studying part-time in the United Kingdom, we paid a fee grant direct to their university.

EDUCATION MAINTENANCE ALLOWANCES

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 three times per year. We administered this service for Northern Ireland and Wales, which included receiving and assessing student applications, receiving confirmation of attendance and paying the allowances.

THE HE GATEWAY

The HE 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 is 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.

We offer two levels of service - full administration, which allows institutions to complete all their bursary administration online - and information only, which provides institutions with student data and the ability to filter and export this information.

Higher Education Institutions pay per student for each service (on a full cost recovery basis for the Student Loans Company). The HE Gateway and HEBSS were launched to institutions in England and Northern Ireland in July 2006.

INCOME CONTINGENT REPAYMENT AND MORTGAGE STYLE LOANS

We collected repayments of Income Contingent Repayment loans, for customers falling outside the UK tax system, mortgage-style loans, and provided customer services for these. We granted deferments of mortgage-style loans on the grounds of income, and we granted write-offs of both kinds of loan on statutory grounds.

Managing Risk

The Student Loans Company's risk and control framework is described in the Statement on Internal Control on page 47.

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 company's corporate objectives

Risk registers are reviewed at regular intervals by the relevant forum.

Principal risks

The principal risks facing us at present are those resulting from the changing business environment.

Historically, we have delivered an essentially similar service across England, Wales, Northern Ireland and Scotland. Now, we must ensure that our product portfolio reflects the different requirements for the Department for Education and Skills, the Department for Training and Education at the Welsh Assembly, the Department for Employment and Learning for Northern Ireland, and the Enterprise, Transport and Lifelong Learning Department at the Scottish Executive, as well as delivering services to higher education institutions.

This multiplicity in itself is not a problem, but the increasingly divergent nature of the respective stakeholder requirements and financial structures compels us to adopt delivery strategies that have inherently higher risks. It also raises key issues about the type of delivery infrastructure that should be established in the future.

The capability and capacity of the Company to deliver these increasingly divergent services is constantly under review, and analysis has resulted in an approach to risk mitigation that has a number of different facets:

- The need to establish effective multiple stakeholder governance and review forums;
- Technical infrastructure issues, notably the need to implement a service oriented architecture to allow greater separation and independent management of the diverse applications required by stakeholders;

- Management of variations to policy, rules and service descriptions for different funding bodies, including management of cross-border issues;
- Development of activity based management models, to ensure continued accurate financial reports for each funding body;
- Review of operational delivery models as, with increasing product divergence, it becomes necessary for front-line customer services staff to specialise in a smaller range of products;
- The need to operate to stringent security standards and actively manage information integrity, availability and confidentiality issues and to maintain and enhance our recovery capabilities;
- The need to address accommodation and power constraints;
- The need to maintain the Student Loans Company's reputation, through continued successful delivery, improved stakeholder communication and improved media management.

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

- The Department for Education and Skills in England
- The Enterprise, Transport and Lifelong Learning Department at the Scottish Executive
- The Department for Employment and Learning for 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 the 2005/06 financial year, income was also received from the Higher Education Funding Council for England to deliver the Higher Education Bursary and Scholarship Scheme.

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

The 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 granted 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. For the financial year 2005/06, operating expenses and programme development expenditure were both successfully contained within the allocated funding.

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.

The Company is subject to the efficiency review within the public sector. The Company actively seeks opportunities to change current practices to maintain customer service at a reduced unit cost. In the financial year 2005/06, the value for money programme developed by the company to deliver efficiency savings contributed £800k to the targeted savings.

CAPITAL AND RESERVES

The Company is a not-for-profit making organisation. The Company complies with HM Treasury planning and spending review cycles and, as part of that process, bids for funds to meet operational, capital and development programme needs.

Under the terms of its Financial Memorandum, the Company is not permitted to raise finance other than by means of operating leases to support its ongoing activities.

In accordance with HM Treasury guidelines, the 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, the Company is not permitted to create reserves.

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

TAX STATUS

For the financial year 2005/06, the Company is registered for VAT and is able to fully recover its input VAT. However, this status is currently being reviewed by HMRC and we have received notification that our services to debt sale parties are exempt from VAT. As a result, this restricts the input VAT recoverable to some extent and increases the funding required from the funding authorities in relation to both ongoing operational expenditure and development programme expenditure.

The 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.

STATUTORY ACCOUNTS

The statutory accounts for year ended 31 March 2006 are presented on pages 42 to 72.

Profit and Loss Account

As stated above, the Company is a not-for-profit organisation and carries no reserves.

The Company's administration expenses of £61,380k are to fund both the operational expenses and the expenses associated with the development programme. Funding of those expenses is provided from the income generated from servicing contracts for third parties (£2,157k) and from bank interest (£228k), with the balance of funding received in the form of Grant-in-Aid from the devolved authorities.

The Company pays tax on the profits emerging from third party administration contracts. This amounted to £206k in the financial year 2005/06. The balance of the tax credit this year is due to the impact of changes to prior year tax computations, as disclosed in note 7 to the accounts, and a credit of £340k in relation to a corporation tax adjustment arising from a change in the Company's VAT status.

Statement of Total Recognised Gains and Losses

This statement, presented on page 56, contains the actuarial loss arising on the Company's defined benefit pension scheme (£5,727k), the main loss having arisen due to a reduction in the discount rate used to value the scheme's liabilities.

Balance Sheet

The Company's balance sheet is presented on page 57. The Company is a not-for-profit organisation and carries no reserves. The net liability of £10,701k on the balance sheet is entirely a result of the recognition of the deficit in the Company's pension scheme on the balance sheet, a treatment required by Financial Reporting Standard 17: Retirement Benefits.

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.

Other than the normal cash flows associated with ongoing operating activities, including the development programme of the Company, the main cash flows relate to the receipt and payment of funding, received from the funding authorities, and paid to students as loans, grants or allowances.

Main Board, Executive Management and Assessors

Keith Bedell-Pearce
Executive Chairman
Appointed 17 December 2001

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 a Non-Executive Director of F&C Asset Management plc. He was a main board Executive Director of Prudential plc until the end of 2001. He is married with three children and lives in Surrey.

Meetings
Attended 9 Board meetings

Attended 2 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. She holds a Masters degree in Finance (MSc) from the London Business School and a BSc in Chemistry from University of London. She is based in London.

Meetings
Attended 8 Board meetings

Attended 3 Audit Committee meetings

Attended 2 Remuneration Committee meetings

Barbara Duffner
Appointed 1 March 2004

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. She 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). She is also a Board Member of Scottish Enterprise, a Member of the Judicial Appointments Board Scotland, a 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 lives near Biggar in Lanarkshire.

Meetings
Attended 9 Board meetings

Attended 3 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, she chaired the Student Loans Company Audit Committee.

She is a Chartered Accountant and holds a Masters degree (MBA) from the Open University.

She lives in Edinburgh and is involved in a number of fund-raising activities.

Meetings
Attended 10 Board meetings

Attended 3 Audit Committee meetings

Attended 3 Remuneration Committee meetings

Christian Torkington
Appointed 11 March 2004

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 all customer service, business operations and IT for Scottish Widows. He has led major strategic change programmes within a variety of public and private sector organisations. He held a number of senior positions within Barclays Bank plc, including leading major IT change projects 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. He is married with two small children and lives in Edinburgh.

Meetings
Attended 8 Board meetings

Attended 2 Audit Committee meetings

Ian Dickson
Appointed 1 March 2005

Biography
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 he worked in the insurance industry in Scotland with Scottish Provident. He lives in Dalgety Bay in Fife.

Meetings
Attended 10 Board meetings

Attended 5 Audit Committee meetings

MAIN BOARD AND EXECUTIVE BOARD MEMBERS

Ralph Seymour-Jackson
Chief Executive with effect 21 July 2003

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. He lives in Edinburgh with his wife and their two children.

Meetings
Attended 9 Board meetings

Attended 3 Audit Committee meetings

Attended 3 Remuneration Committee meetings

EXECUTIVE MANAGEMENT TEAM

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, project management and technical infrastructure architecture. Before joining the Student Loans Company, he 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.

He 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 Certified Project Manager title by the IAPM. He is married and has four children.

Meetings
Attended 8 Board meetings

Derek Ross
Operations Director

Biography
Derek Ross has been Director of Operations since February 2005. The Operations Directorate encompasses Business Services, Customer Services and Change Management. Derek's previous role in the Student Loans Company was Director of Administration and Company Secretary and before that, Legal Services and Corporate Compliance Manager. Prior to joining the Student Loans Company in 1999, he was in charge of the management of property and commercial contracts for East Dunbartonshire Council and before that was in private legal practice and government legal service for 15 years. He is a member of the Law Society of Scotland and he completed an MBA in 1999. He lives in Motherwell with his wife and their two daughters.

Meetings
Attended 10 Board meetings

Ron Watson
Finance and Administration Director

Biography
Ron Watson is responsible, as Chief Financial Officer, for ensuring the highest standards of financial discipline across the Company's activities, the highest standard of corporate governance and that the Company complies with all relevant legislation, regulations and government guidance at all times. He is responsible for the financial services, corporate services, assurance services and human resources divisions. He previously worked for the Royal Bank of Scotland plc and Scottish Widows. He is a Fellow of the Chartered Institute of Management Accountants and has also completed an MBA. He is married and lives in Glasgow.

Meetings
Attended 10 Board meetings

Attended 5 Audit Committee meetings

Attended 3 Remuneration Committee meetings

Chris Andrew
Company Secretary from 1 February 2004

Biography
Chris Andrew is Company Secretary of SLC. He provides a secretariat to the Company's Board of Directors and Executive Management ensuring that all necessary Corporate Governance requirements are complied with.

He 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 also Chair of the Corporate Management Board (CMB) which handles the day to day running of the business including all budgeting, establishment and risk management issues. He is the Head of Assurance Services, which encompasses the areas of corporate assurance, internal audit, marketing & communications and legal & compliance. He became a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) in 1990. He is married and lives in Lanark with his wife and their three children.

Meetings
Attended 10 Board meetings

Attended 5 Audit Committee meetings

Attended 3 Remuneration Committee meetings

ASSESSORS

Michael Hipkins
Represents the Secretary of State for Education and Skills

Director of Student Finance Strategy

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

Meetings
Attended 9 Board meetings

Attended 4 Audit Committee meetings

Attended 3 Remuneration Committee meetings

Dr John Rigg
Represents Scottish Ministers

Head of Funding for Learners Division

Biography
Dr John Rigg has been Head of the Funding for Learners Division within the Scottish Executive since 2002. Dr Rigg's term as head of this division ended at the end of April this year. His successor is Gill Troup, who took up her position on 1 May 2006.

Meetings
Attended 10 Board meetings

Footnotes:

Board Attendance
10 meetings were held between April 2005 and March 2006.

Audit Committee
5 Audit Committee meetings were held in the time of this report.

Remuneration Committee
3 Remuneration Committee meetings were held in the time of this report.

Chairman's Statement

The Directors' Report and Financial Statements below, cover the activities of the Student Loans Company for the year ended 31 March 2006.

The arrangements we put in place to supply student finance for the academic year 2005/2006 were shown at an early stage in the application process to be working extremely well.
In April 2005, we launched the Customer Portal, giving full on-line access to all English and Welsh student loan applicants for the first time. Consistently through the summer months, we saw a very material increase of application approvals over the previous year. By mid-July, around 100,000 more applications had been approved using the Company's centralised computer system than at the end of the previous July. This gave us early assurance of the on-time payment of all those who applied by the set deadlines. The successful and largely problem-free provision of the computerised application process made it possible for us then not only to provide the customer website with some major improvements in December but, at the same time, to launch the Student Finance Wales website in both English and Welsh and, three months later, the new website for Student Finance Northern Ireland. These major steps forward are a significant achievement.

It is in the nature of what we do that customer numbers continue to increase and, as at 31 March 2006, just over 871,000 students had received loans for the academic year 2005/2006, compared to 844,000 at the same time in the previous academic year.

Through the Bankers' Automated Clearing System (BACS), we paid first instalments into the bank accounts of 754,000 student borrowers between July and October.

As the Income Contingent Repayment (ICR) scheme entered its eighth year of operation and the fifth year of repayments, HM Revenue & Customs were notified of an additional 282,000 borrowers due for repayment (271,000 last year), bringing the total number of ICR customers now repaying to 1.4 million. As at 31 March 2006, the total amount loaned to ICR customers was £19.1 billion-compared with £16.5 billion last year - an increase of around 16 percent in value.

Wherever possible the Company complies fully with the revised Combined Code on corporate governance, which applies from April 2004, including a formal annual evaluation of the performance of the Board. In addition, all our key activities are measured by Ministerial Key Performance Indicators and I am satisfied that our performance against these rigorous standards has been more than satisfactory, with four of our five objectives above the target expectation and the other within 10 percent of target.

The Minister for Higher Education announced in January of this year his acceptance in principle of the 44 recommendations of the *End-to-End Review* of student finance provision for improving the service delivered in England and I was particularly pleased that these substantially reflected the submission made by the Student Loans Company to the Review. The Minister's final decision regarding the *End-to-End Review* was announced on 3 July 2006 and he confirmed that the Student Loans Company will be responsible for delivering the service.

We now meet the significantly divergent needs of four separate education departments in the United Kingdom. We continue to increase our services to them and have now begun to extend the scope of our service to universities and colleges throughout the United Kingdom through the provision of systems support for the bursary arrangements being introduced for the first time in 2006.

During the 2005-2006 financial year, John Rigg's term as a Board Assessor representing the Scottish Executive came to an end and I would like to take this opportunity of extending my sincere thanks to him for his invaluable input during his time with us. At the same time, I would like to extend my thanks to our colleagues in the Department for Education and Skills, the Scottish Executive, Department for Employment and Learning Northern Ireland and the Welsh Assembly. Finally, I thank my non-executive colleagues and the management and employees of the Student Loans Company for their support and efforts during this very successful year for the company.

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 2006. 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 35 has been provided in accordance with section 234ZZB of the Companies Act.

Economic and Monetary Union

While the way forward for the UK in relation to joining the common European Currency is not clear, the Company is consulting with the Department for Education and Skills to keep abreast of material developments in this matter and to consider the potential impact on the Company. *As part of this process, links* have been established with Department officials in order to be prepared to provide the necessary contributions to the overall planning process in due course.

Dividends

The Company has no accumulated reserves and *accordingly the directors do not* recommend the payment of a dividend *(2005: £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 *^

Barbara Duffner
Non-Executive ^

Angela McCusker
Non-Executive *^

Ralph Seymour-Jackson
Chief Executive

Christian Torkington
Non-Executive *

Ian Dickson
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 2006 or 31 March 2005. 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 8 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 and 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 re-accreditation on 2 October 2003.

Charitable donations

During the year the Company made no charitable donations *(2005: £ 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 percent *(2005 : 91%)* of invoices were paid within agreed terms.

Corporate Governance

The Company is an Executive NDPB, and its 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 July 2003. This is supported by the document 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance).

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, 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 2006 is provided on pages 47 to 52.

The Student Loans Company Main Board

The role of the Student Loans Company 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 the Companies Act's 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 Remuneration Committee consists 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 Audit Committee consists of at least three non-executive directors who are independent of management and free of any business or other relationships (including cross-directorships or day-to-day involvement in the management of the business) which could interfere with the exercise of their independent judgement.

The duties of the Audit Committee are:

- to review the annual financial statements and their compliance with statutory and accounting requirements before their submission to the Board;

- To consider the scope, planning and terms of engagement of the external auditors, and to review their findings;
- To review management procedures to monitor the effectiveness of the internal control functions and accounting systems of the Company;
- To consider the role of the Internal Audit Department and to review their major findings and management's actions to implement any recommendations made;
- To make recommendations to the Board concerning the appointment of external auditors and to recommend, in conjunction with the Finance and Administration Director, their remuneration;
- To keep under review the ethical standards of business behaviour of the Company;
- To consider the going concern assumption and the statement on internal control systems prior to their endorsement by the Board.

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

Going concern

The balance sheet at 31 March 2006 shows net liabilities of £10,701,000 (*2005: £4,948,000*). These liabilities arise solely as a result of the inclusion of pension fund liabilities falling due in future years in accordance with the accounting treatment required by FRS17: Retirement Benefits, which the Company has chosen to adopt earlier than required. To the extent that they are not to be met from the Company's other sources of income, they may only be met by future grants or 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 2006-07, taking into account the amounts required to meet the Company's liabilities falling due in that year, has already been included in the Department's Estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

The net liability position presented in the balance sheet is entirely a result of the impact of adopting FRS17 in a non-profit making company. 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

27 June 2006

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 45.

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 2006 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			
High	***MEDIUM***	*HIGH*	*HIGH*
Med/High	MEDIUM	HIGH	HIGH
Med	LOW	MEDIUM	MEDIUM
Med/Low	LOW	LOW	MEDIUM
Low	LOW	LOW	MEDIUM
Likelihood	Low	Med	High

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

HIGH	Immediate action is required to manage this risk down by developing 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.
MEDIUM	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.
LOW	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 tolerable level. 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 reviews 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 reviews 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 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 Problem

The following significant control problem has been identified:

Fraud investigations
The Company is providing support for investigations, led by the Department for Education and Skills, into possible fraud. One investigation relates to the use of stolen birth certificates. The other is associated with the National Fraud Initiative, led by the Audit Commission, which compares databases held by Government agencies (and which includes the Company for the first time) in an effort to determine whether any applications for funding are ineligible or fraudulent.

Although the Company is not responsible for the key processes that are pertinent to these investigations, they may lead to changes in the procedures used to assess applications for student loans.

Ralph Seymour-Jackson
Chief Executive and Accounting Officer
27 June 2006

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 United Kingdom Financial Reporting Standards.

The financial statements are required by law to present fairly the financial position and the performance of the Company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 they have been prepared in accordance with UK Financial Reporting Standards; 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 Department for Education and Skills, 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 the Student Loans Company Ltd for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement 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

As described in the Statement of Directors' Responsibilities on page 53, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Financial Reporting Standards.

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 whether the financial statements have been 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.

We also 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 United Kingdom Financial Reporting Standards, of the state of the Company's affairs as at 31 March 2006 and of its result for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985;
- The information given in the Directors' Report is consistent with the financial statements; and
- In all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

KPMG LLP

KPMG LLP

Chartered Accountants
Registered Auditor

27 June 2006

Profit and Loss Account
for the year ended 31 March 2006

	Note	2006 £000	2005 £000 restated
Turnover	3		
Grant-in-aid		**56,850**	49,327
Other		**4,212**	6,435
Administrative expenses		**(61,380)**	(55,177)
Operating (deficit) / surplus		**(318)**	585
Interest receivable	4	231	249
Other finance costs	18	**(230)**	(212)
Result of ordinary activities before taxation	5	**(317)**	622
Tax on result of ordinary activities	7	**317**	(622)
Result for the financial year		**-**	-

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

Statement of Total Recognised Gains and Losses

	Note	2006 £000	2005 £000
Actual return less expected return on pension scheme assets		**1,785**	320
Experience gains and losses on pension scheme liabilities		**(1,461)**	(39)
Changes in assumptions underlying the pension scheme liabilities		**(6,051)**	(415)
Actuarial gain / (loss) recognised in STRGL	18	**(5,727)**	(134)

Balance Sheet
at 31 March 2006

	Note	2006		2005	
		£000	**£000**	£000 restated	£000 restated
Fixed assets					
Tangible assets	8		**4,738**		5,482
Current assets					
Debtors	9	**4,477**		4,290	
Cash at bank and in hand	10	**17,566**		16,279	
Prepayments and accrued income		**3,191**		2,814	
		25,234		23,383	
Creditors:					
Amounts falling due within one year	11	**(25,234)**		(23,083)	
Net current assets			**-**		300
Total assets less current liabilities			**4,738**		5,782
Provisions for liabilities and charges	12		**-**		(300)
Accruals and deferred income					
Deferred capital receipts	13		**(4,738)**		(5,482)
Net assets excluding pension asset			**-**		-
Pension liability	18		**(10,701)**		(4,948)
			(10,701)		(4,948)
Capital and reserves					
Called up share capital	14		**-**		-
Profit and loss account	19		**(10,701)**		(4,948)
Total shareholders' funds - equity			**(10,701)**		(4,948)

These financial statements were approved by the Board of Directors on 27 June 2006 and were signed on its behalf by:

Ralph Seymour-Jackson
Director and Accounting Officer

Cash Flow Statement
for the year ended 31 March 2006

	Note	**2006**		2005	
		£000	**£000**	£000	£000
Net cash inflow/ (outflow) from operating activities	16		**1,468**		(6,741)
Returns on investments and servicing of finance					
Bank and other interest received			**233**		246
Taxation					
Corporation tax paid			**(414)**		(861)
Capital expenditure					
Payments to acquire tangible fixed assets		**(614)**		(1,184)	
Receipts from sales of tangible fixed assets		**15**		30	
Net cash outflow from capital expenditure			**(599)**		(1,154)
Net cash inlow/ (outflow) before financing			**688**		(8,510)
Financing					
Capital funding received from the funding bodies			**599**		1,154
Increase / (Decrease) in cash in the period			**1,287**		(7,356)
Net funds at 1 April			**16,279**		23,635
Net funds at 31 March			**17,566**		16,279

Notes (forming part of the financial statements)

1 Statement of loans administered by the Company

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

As at 31 March 2006, the total balance of the loan portfolio administered by the Company on behalf of the funding bodies and the private sector owners was £19,100,639,000 (*2005:£16,453,501,000*), 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 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.

The provisions of Financial Reporting Standards 21: Events after the Balance Sheet Date and 28: Corresponding Amounts have been adopted for the first time in these financial statements. The adoption of these standards has not had any impact on these financial statements.

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 party debt purchasers and administration and legal charges recovered from third parties in relation to customers in default.

Notes

2 Accounting policies continued

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.

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.

Change in accounting policy

In certain circumstances, administration charges are applied to customer accounts to recover additional costs the Company has to incur following default on the part of the customer. As a result of a change in the legal opinion on the ownership of this element of the customer balance in relation to loans issued under the previous mortgage-style regulations, it is now accounted for as belonging to the Company as opposed to the relevant funding body.

The impact of this change on the profit and loss account is to recognise the recoverable charges as they are applied, rather than at the point of recovery. In addition, in prior years, this recovered element had been treated as a deduction from administration expenses, reflecting the nature of the charges as costs recovered. That profit and loss account treatment has changed to reflect the recoverable charges as income and the profit and loss account restated accordingly.

Estimated recoverable administration charges at the year end are disclosed as debtors and the timing *difference arising on the recognition of income in the profit and loss account and the actual repayment of the* charges is reflected within balances with central government bodies.

Notes

3 Turnover

Turnover is analysed as follows:

	2006 £000	2005 £000 restated
Grant-in-Aid receivable	**56,850**	49,327
Administration fees receivable from third party debt purchasers	**2,157**	4,158
Other income	**2,055**	2,277
	61,062	55,762

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 the transfer of one of the debt portfolios to another administrator last year and a declining trend due to the ageing and profile of the remaining debt sale portfolio.

Other income consists mainly of administration and legal charges recovered from third parties in relation to customers in default.

4 Interest receivable

	2006 £000	2005 £000
Bank interest	**228**	249
Corporation tax repayment interest	**3**	-
	231	249

Notes

5 Result of ordinary activities before taxation

(a)This is stated after charging or (crediting):	**2006** **£000**	2005 £000
Depreciation	**1,356**	1,729
(Gain) / Loss on disposal of fixed assets	**(13)**	42
Amortisation of deferred capital receipts	**(1,356)**	(1,729)
Directors' remuneration (see below)	**244**	244
Auditors' remuneration, including expenses:		
Audit services	**36**	35
Further assurance services	**16**	15
Tax services	**52**	11
Other services	**-**	12
Operating lease rentals:		
Land and buildings	**1,711**	1,743
Computer and other equipment	**4,512**	3,409

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:

	2006 **£000**	2005 £000
Fees	**25**	23
Executive emoluments (including benefits in kind)	**204**	206
Pension contributions	**15**	15
	244	244

Notes

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

	Basic Emolument		Other benefits and expenses*		Total Emoluments		Pension Contributions		Contract terms	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	Term	Notice period
Keith Bedell-Pearce	**61**	63	**4**	3	**65**	66	**-**	-	3 yrs	3 mths
Brian G Booth (deceased 24 October 2004)	**-**	3	**-**	-	**-**	3	**-**	-	4 yrs	-
Tanvi Davda	**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)	**139**	140	**-**	-	**139**	140	**15**	15	3 yrs 6 mths	6 mths
Christian Torkington	**5**	5	**-**	-	**5**	5	**-**	-	3 yrs	-
Ian Dickson (appointed 1 March 2005)	**5**	-	**-**	-	**5**	-	**-**	-	3 yrs	-
	225	226	**4**	3	**229**	229	**15**	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 £14,000 (2005 : £15,000).

As required by Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance, the following is the remuneration of each individual substantive Executive Board member not included in the table of directors' remuneration above.

Notes

5 Result of ordinary activities before taxation continued

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

	Basic Emolument		Other benefits and expenses		Total Emoluments		Pension Contributions		Contract terms	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	Term	Notice period
E Ostman (retired 20 February 2005)	**-**	98	**-**	-	**-**	98	**-**	10	Permanent	6 months
D Ross	**111**	96	**-**	-	**111**	96	**12**	10	Permanent	6 months
R Watson	**111**	96	**-**	-	**111**	96	**12**	10	Permanent	6 months
W Gray	**111**	96	**-**	-	**111**	96	**12**	10	Permanent	6 months
	333	386	**-**	-	**333**	386	**36**	40		

6 Staff numbers and costs

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

	2006	2005
Number of employees	**1,027**	943

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:

	2006 £000	2005 £000
Wages and salaries	**23,984**	20,747
Social security costs	**1,825**	1,593
Pension service costs	**1,498**	1,333
Other staff costs	**208**	220
	27,515	23,893

Notes

7 Tax on result on ordinary activities

	2006 £000	2005 £000
Based on the result for the year at the standard rate of 30% *(2005: 30%)*	**(134)**	622
Adjustment in respect of prior years' reassessments	**(183)**	-
	(317)	622

The tax charge represents 30% of the taxable profits arising on administration fees receivable from third party debt purchasers and bank interest, after charging the costs associated with the administration of that business.

This year the tax charge includes a credit of £340,000 in relation to an adjustment required to reflect a revised VAT status of the Company, which has resulted in an element of the expenses of the Company becoming irrecoverable, thereby reducing taxable profits.

8 Tangible fixed assets

	Short leasehold improvements £000	Computer & other electronic equipment £000	Furniture, fixtures & fittings £000	Motor vehicles £000	Total £000
Cost					
At beginning of year	5,435	10,945	2,169	22	18,571
Additions	229	162	197	26	614
Disposals	-	(349)	(10)	(20)	(379)
At end of year	5,664	10,758	2,356	28	18,806
Depreciation					
At beginning of year	1,994	10,100	977	18	13,089
Charge for year	565	525	259	7	1,356
On disposals	-	(349)	(9)	(19)	(377)
At end of year	2,559	10,276	1,227	6	14,068
Net book value					
At 31 March 2006	**3,105**	**482**	**1,129**	**22**	**4,738**
At 31 March 2005	*3,441*	*845*	*1,192*	*4*	*5,482*

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

Notes

9 Debtors

	2006 £000	2005 £000 restated
Customer administration charges	3,657	3,984
Corporation tax	450	-
Other taxation	267	-
Other debtors	103	39
Amounts due from third party debt owners	-	267
	4,477	4,290

The Company has received confirmation that an element of its services currently treated as standard rated for VAT purposes should be VAT exempt. The other taxation balance represents the estimated associated net repayment due from HMRC.

Due to the inclusion of an element of input VAT recovered in prior years associated with the above resulting in a tax loss for the current year, a downward reassessment of prior year corporation tax calculations and payments on account having been already made in respect of the current year tax charge, the net balance at the year end with HM Revenue & Customs is a debtor.

10 Cash at bank and in hand

	2006 £000	2005 £000
Cash held in:		
Commercial bank accounts	5,005	2,856
HM Paymaster General Office accounts	12,561	13,421
Cash in hand	-	2
	17,566	16,279

11 Creditors: amounts falling due within one year

	2006 £000	2005 £000 restated
Balances with central government bodies	16,432	14,829
Trade creditors	1,735	1,765
Corporation tax	-	281
Other taxation and social security	651	1,452
Accruals and deferred income	4,224	4,756
Amounts due to third party debt owners	2,192	-
	25,234	23,083

Notes

The balances with central government bodies comprise funding received from the funding bodies not yet issued as student loans or tuition fees £13,090,000 *(2005: £13,442,000)* and £3,342,000 (*2005: £1,387,000*) 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.

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

12 Provisions for liabilities and charges

The provision disclosed last year related to a writ issued by a former chief executive, who has since died, *claiming loss and damages in respect of the termination of his contract. Legal judgement has now been* received, £65,000 paid in respect of the claim and estimated legal costs recognised within accruals.

13 Deferred capital receipts

	2006 £000	2005 £000
At 1 April	**5,482**	6,099
Receivable for the year	**612**	1,112
Credited to profit and loss account	**(1,356)**	(1,729)
At 31 March	**4,738**	5,482

14 Called up equity share capital

	2006 £	2005 £
Authorised		
100 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
10 ordinary shares of £1 each	**10**	10

Notes

15 Movement in shareholders' funds

	2006	2005
	£000	£000
Shareholders funds at 1 April	**(4,948)**	(4,794)
Movement in year	**(5,753)**	(154)
Shareholders funds at 31 March	**(10,701)**	(4,948)

The annual movement in shareholders' funds represents the movement in the pension liability. The analysis of this movement is detailed in Note 18.

16 Cash flows

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

	2006	2005
	£000	£000
		restated
Operating (deficit) / surplus	**(318)**	585
Depreciation	**1,356**	1,729
Amortisation of deferred capital receipts	**(1,356)**	(1,729)
	(318)	585
Increase in debtors, excluding interest receivable	**(346)**	(2,707)
Increase in creditors	**2,784**	1,724
(Decrease) / Increase in provisions	**(300)**	300
Net cash inflow from administration activities	**1,820**	(98)
Funding provided to students and HEIs	**(3,776,075)**	(3,464,755)
Funding received from the funding bodies	**3,775,723**	3,458,112
Net cash inflow / (outflow) from operating activities	**1,468**	(6,741)

Notes

17 Financial commitments

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

	Land and buildings		**Other**	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Operating leases which expire:				
Within one year	**-**	-	**328**	1,048
In the second to fifth years inclusive	**94**	564	**3,880**	2,262
In over five years	**1,765**	1,179	**-**	-
	1,859	1,743	**4,208**	3,310

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

The increase in other leases is due to new leases for computer equipment required in connection with the development of systems to support the additional products the Company is now responsible for administering.

At 31 March 2006, the Company had placed contracts for the purchase of fixed assets totalling £52,000 *(2005: £nil)*.

18 Pensions

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

In accordance with the Government Financial Reporting Manual, the Company has opted for early adoption of FRS17: Retirement Benefits. In addition to the disclosures contained in the primary statements, the following disclosures are in accordance with that Standard.

Composition of the scheme

The Company operates a defined benefit scheme in the UK. The following disclosures are based on the triennial actuarial valuation carried out at 5 November 2005 and updated to 31 March 2006 by a qualified independent actuary.

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

	2006	2005	2004
Rate of increase in salaries	**4.5%**	4.4%	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) ***	**3.0%**	2.9%	2.9%
Rate of increase of pensions in deferment	**3.0%**	2.9%	2.9%
Discount rate	**4.9%**	5.4%	5.5%
Inflation assumption	**3.0%**	2.9%	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%

Notes

18 Pensions continued

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

	2006	***2006 £000***	*2005*	*2005 £000*	*2004*	*2004 £000*
Equities	**5.80%**	**11,016**	6.20%	7,906	6.20%	6,862
Bonds	**3.10%**	**2,642**	3.60%	1,450	-	-
Cash	**3.00%**	**425**	3.30%	402	2.50%	233
Total market value of assets		**14,083**		9,758		7,095
Actuarial value of liability		**(24,784)**		(14,706)		(11,889)
Recoverable deficit in the scheme		**(10,701)**		(4,948)		(4,794)
Related deferred tax asset		**-**		-		-
Net pension liability		**(10,701)**		(4,948)		(4,794)

An improvement in stock market conditions has resulted in the actual return of assets exceeding that which was expected. Expected return on assets was £611,000 *(2005: £488,000)* and the actual return on assets was £2,396,000 *(2005: £808,000)*. However, market conditions have led to a reduction in the assumed discount rate applied to future liabilities from 5.4% at 31 March 2005 to 4.9% at 31 March 2006. Taken together with less significant changes in actuarial assumptions, this has resulted in an actuarial loss of £5,727,000 *(2005: loss of £134,000)*.

Analysis of the amount charged to operating profit

	2006 £000	2005 £000
Current service cost	**1,294**	1,142
Total operating charge	**1,294**	1,142

Analysis of net return on pension scheme

	2006 £000	2005 £000
Expected return on pension scheme assets	**611**	488
Interest on pension liabilities	**(841)**	(700)
Net Return	**(230)**	(212)

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

History of experience gains and losses

As this is the fourth year that the FRS17 disclosures are required, a limited history of experience gains and losses is provided. Next year, a history will be complete and provided on a rolling 5 year basis thereafter.

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

Movement in deficit during the year

	2006 £000	2005 £000
Deficit in scheme at beginning of year	**(4,948)**	(4,794)
Movement in year:		
Current service cost	**(1,294)**	(1,142)
Contributions	**1,498**	1,334
Past service costs	**-**	-
Net return on assets/(interest cost)	**(230)**	(212)
Actuarial (loss)/gain arising from change in assumptions	**(6,051)**	(415)
Other actuarial (loss) / gain	**324**	281
Deficit in scheme at end of year	**(10,701)**	(4,948)

19 Reserves

	2006	2005
	£000	£000
Profit and Loss Reserve excluding pension liability	**-**	-
Pension liability	**(10,701)**	(4,948)
Profit and Loss Reserve	**(10,701)**	(4,948)

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

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

20 Contingent liability

As a result of a claim by a third party, HM Revenue & Customs have stated that an element of the Company's services currently treated as standard rated for VAT purposes should be VAT exempt.

Estimates have been included within the profit and loss account and balance sheet of the amounts the Company may have to repay to HMRC for an element of input VAT recovered and refund to third parties concerned for the output VAT charged.

The Company does not believe that there will be any further impacts. However, until further clarification is received from HMRC, uncertainty remains over the extent of the services that may be affected, and the range of dates from which it may be deemed effective. Assessment of potential financial impact is complex but the maximum potential exposure does not exceed £19million.

21 Controlling parties

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

22 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 11 whilst grant funding is covered in notes 11 and 16.

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.

23 Notional cost of capital

In accordance with the 'Executive NDPBs: Annual Reports and Accounts Guidance' the Company is required to disclose the notional cost of capital. In the year ended 31 March 2006, the cost of such capital (calculated at 3.5% for both the current and prior years, rates determined by the Government Financial Reporting Manual guidance) was £179,000 *(2005: £203,000)*.

Independent Assessor's Statement

As required by my Terms of Reference, I am pleased to report on my activities during the period 1 August 2005 until 31 March 2006. Due to changes in the Company's reporting arrangements this report covers eight months rather than the usual full year. I issued thirteen Reports during this period. Four complaints were raised in respect of income contingent repayment (ICR) loans. The other nine cases arose in relation to mortgage-style student loans.

The first of the ICR cases incorporated fourteen related complaints. I did not find for the complainant on any substantive matter but I did recommend that the Company should examine whether it was doing all that it could to ensure that incoming internal complaints correspondence is received and actioned as expeditiously as possible.

The second of the ICR cases led me to conclude that the Company had given very poor customer service to the complainant. I recommended a payment of £500 and I also recommended that urgent steps be taken with regard to the retention of certain specified complaints-related records.

The next of these cases led to me identifying examples of 'slipshod administration' and I recommended a payment of £100 plus confirmation of an interest adjustment of £133.46 in favour of the borrower.

The final income contingent repayment case raised serious issues about the repayment process and the relationship between the Company and HMRC. I recommended that the Company should not seek repayment of a disputed £468.43 and that the issue be resolved between the Company and HMRC. I further recommended that the systemic challenge identified in this case be brought to the attention of the Department for Education and Skills. Finally, I recommended that £50 be paid to the complainant.

I now move on to mortgage-style cases. In the first of those I did not find in favour of the complainant in the core complaint relating to disputed arrears. I did, however, accept some further complaints, concluding that there had been a very poor level of service, and I recommended that a payment of £350 be made to the complainant.

I did not find for the complainant on most aspects of the second mortgage-style case but I did recommend a payment of £75 with regard to one issue. I recommended that the Company pursue repayment of arrears on the account.

The third case led me to find for the complainant on two relatively minor issues. I did not support other complaints. A payment of £70 was recommended.

In the fourth mortgage-style case I supported an offer to the complainant previously made and I further recommended a payment of £30.

I did not conclude in favour of the complainant in the substantive issues of the next case but I did act in respect of a related matter and recommended a written apology be given together with a payment of £50. Arising from this case, I recommended that the Company take action to ensure that, in future, call recordings will not become unavailable because an employee has left the Company.

The sixth mortgage-style case led me to conclude that an offer already made be repeated to the complainant. I commented that - "In my overall judgement an offer to remove all of the £273 of charges more than adequately provides for the criticism I have made". If the complainant did not accept the offer and also did not enter into an arrangement to repay arrears on the account, then I recommended that the Company take necessary steps to obtain repayment.

My consideration of the seventh case did not lead me to conclude in favour of the complainant and I recommended that an arrangement to repay account arrears and charges be pursued. I did, however, make ancillary recommendations regarding information presentation and data retention in the context of Freedom of Information legislation. I regard those as significant recommendations.

The next case contained many inter-related complaints. Other than on two quite minor - but unfortunate - points, I did not accept any of them. I recommended that the Company re-commence collection action in respect of the account.

The last of the mortgage-style complaints related solely to the validity of a charge applied to the borrower's account. I did not find in favour of the complainant and I recommended that the Company take steps to secure repayment of the arrears and the charge on the account.

With one exception, all my financial recommendations have been implemented by the Company. In the fourth ICR case, one recommendation remains subject to discussions between the Company and the Department for Education and Skills.

Over the period covered by this report, I have continued to hold follow-up meetings with the Company, usually including sessions with Ralph Seymour-Jackson.

Mike Wilkinson

Mr M Wilkinson
Independent Assessor

STUDENT LOANS COMPANY LIMITED
100 Bothwell Street, Glasgow, G2 7JD
Tel 0141 306 2000 Fax 0141 306 2005 Web www.slc.co.uk

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