



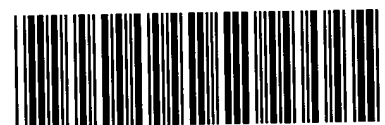
Student Loans Company

ANNUAL REPORT

2014-15

www.slc.co.uk

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01.

CHAIRMAN'S STATEMENT

Throughout the year under review student finance remained at the forefront of the coalition Government's commitment to widening access to Higher and Further Education and with over 6.9 million customers and a loan book of £74bn, the Student Loans Company (SLC) will be of continuing interest to the new Conservative Government.

2014-15 was without question a very good year for SLC. We made significant progress towards our Vision and took great strides in improving the way we work, the services we deliver and our approach to managing a complex change programme.

Such high public awareness and profile brings increased scrutiny of our activities and service and, as Chairman, I recognise that our governance framework is vital to the organisation, a view that is shared by my Board colleagues.

To that end, during 2014-15 I devoted much of my energies towards undertaking a wide ranging review of corporate governance. This included a comprehensive review of the Board's effectiveness and the Company's requirements in terms of compliance with legislation and with the spirit of the wider regulatory landscape within

which the Company operates. This was completed successfully and identified over 400 pieces of legislative or compliance arrangements by which we are bound.

These arrangements were properly considered and encapsulated in a fundamental review of our Framework document. This review was undertaken in conjunction with our Sponsorship Team within the Department for Business, Innovation and Skills (BIS) and the Devolved Administrations (DAs) to ensure that the Framework Document accurately covers the broad structure within which BIS, the DAs and the SLC operates, in order for it to support the effective corporate governance of the organisation.

I have already implemented some changes to how the Board operates based on the findings of the effectiveness review and the lessons learned. These changes are designed to improve the flow of information to the Board and make better use of the time the Non-Executive Directors have available to direct and support the work of the Chief Executive Officer and his Executive Leadership Team.

01. CHAIRMAN'S STATEMENT

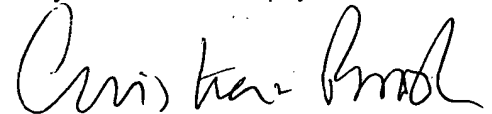
Through the review we recognised the need to strengthen the composition of the Board to provide support to me and the Chief Executive in specific areas of our business. I am currently working with BIS officials to recruit five new Non-Executive Directors who are experienced in the fields of Digital, Repayments, Organisational Change, Customer Service, Audit and Finance. The first step towards these appointments was made on 30th March 2015 with Richard Banks, the Chief Executive of UK Asset Resolution attending his first Board meeting as interim Non-Executive Director that month. I hope to be in a position to appoint the new Non-Executives early in the 2015-16 financial year.

I would like to take the opportunity to thank one of our outgoing Non-Executive Directors, David Edelman, who completed his service during 2014-15. David had served on the Board for six years and I am very grateful for all his contributions and insight throughout that time.

Government obviously takes a keen interest in the work of the Student Loans Company and it is pleasing that they also want to meet the people behind the processes and the figures. Over the last twelve months we have

welcomed the then Secretary of State for Business, Innovation and Skills, Vince Cable, and more recently the then Minister of State for Universities, Science and Cities, Greg Clarke, to our Glasgow operation. We were also pleased to welcome Huw Lewis, the Minister for Education and Skills in Wales, who opened the new, modernised Student Finance Wales office at Llandudno Junction in May 2014. Most recently we played host to Sir Jeremy Heywood, Cabinet Secretary and Head of the Civil Service and took the opportunity to present on a number of current initiatives that evidence our progress towards our Vision as a digital, customer-focused, centre of excellence.

I hope that as you read our Strategic Review section and the accompanying financial reports, you will see the central role we play in helping people invest in their futures brought to life through the case studies of our staff, our partners in Higher and Further Education and our customers, whether they be students or repayers.



Christian Brodie
Chairman, Student Loans Company

Our Vision

Our Vision is to be valued as a digital, customer-focused, centre of excellence.

02.

CHIEF EXECUTIVE'S FOREWORD

The SLC operation is one of the UK's largest lenders: paying out £7 billion in maintenance loans and grants and around £7.5 billion to learning providers in Higher and Further Education in the last financial year. We are also one of the largest users of the BACS system, making safe, secure payments to providers and to over 1.7 million new and returning students over the course of the 2014/15 academic year.

2014-15 was a very successful year for SLC with more applications received and processed than at any time in our 25 year history. It is pleasing to note that the higher volumes of transactions have been accompanied by higher levels of customer satisfaction; something that I believe is directly linked to improvements we have made to our online application process as we look to continuously improve our customer service.

We have worked hard to make the application process streamlined and intuitive, and have aligned our marketing and customer-facing communication activities to the application cycle so that our customers are receiving relevant information at key points in the process.

There may still be some way to go before we can claim to be a fully digital, customer-focused centre of excellence, however, we took a further significant step towards our

Vision when we received Government Digital Service (GDS) accreditation for the Academic Year 15/16 service which launched in January. This achievement makes SLC the only Government Agency to have two live GDS accredited services, as part of the GDS exemplar programme. Across the whole of Government there are currently only 15 live services and two of them are within SLC.

In 2014-15 SLC underwent significant change and transformation on many levels, starting with a wholesale restructure of the Executive Leadership Team to enable us to both focus on our priorities and rebalance our resources across our customer facing and support services.

As part of that exercise, I appointed Jacqueline Steed to the Executive Leadership Team in the new role of Chief Digital Officer. This appointment recognises that digital delivery requires a different approach to how we have traditionally managed information technology. Technology is no longer just a key enabler but is now the means by which we interact with and respond to our customers' growing, and predominantly digital, needs.

Our Mission

We enable our customers to invest in their futures by delivering secure, accurate and efficient assessment, payment and repayment services.

02. CHIEF EXECUTIVE'S FOREWORD

It was also clear that the loan book, which is currently £74 billion and rising, warranted greater concentration on the management of our repayment services. To address this, I created a new Executive Director post to prioritise this area and, following the appointment of Paul Mason to this role, we have a clear repayment strategy to ensure we collect every pound due. This is an important shift in focus and particularly so given the size of the loan book and the public asset that this now represents.

I also restructured our Senior Management Team to ensure we have the right focus and balance across the business. This involved creating new roles, consolidating existing ones and bringing in new expertise to work alongside our highly knowledgeable senior managers. With the Executive Leadership Team focused primarily on delivering our Vision, the Senior Management Team is now responsible for the delivery of our Mission.

Throughout these significant organisational changes we have continued to make good progress in terms of our underlying business performance during what has been our busiest year ever. SLC has rightly spent considerable time and effort over the last few years ensuring that we make the right payments to the right people at the right time. The successful assessment and payment of student funding is critical to BIS and the Devolved Administrations and to SLC, its customers and the wider Higher Education (HE) and Further Education (FE) community.

In 2014-15 student finance was also on the Public Accounts Committee (PAC) work programme and I attended the Committee on two occasions to answer questions on the National Audit Office Report into finance support for students at alternative higher education providers. It is clear that SLC will continue to be important to Government due to the central role the organisation plays in the overall operation and funding of the HE and FE sectors. We recognise the importance of the central funding role we play and continue to deliver our core assess, pay and repay services robustly.

Our performance is measured against a series of targets, which are agreed with BIS and the Devolved Administrations at the start of each financial year, and are detailed in our Balanced Scorecard. I am particularly pleased to note, that in addition to processing significantly higher volumes of applications, we have not just maintained but seen improved levels of customer satisfaction, lower levels of customer complaints and a reduction in error rates. This shows some of the early benefits of our transformation and other change programmes where we are improving our customer-facing systems by applying new digital and agile skills to enhance customer experience.

02. CHIEF EXECUTIVE'S FOREWORD

These improvements have also delivered significant financial benefits and together with other initiatives have secured transformation programme anticipated life-cycle benefits and cost savings in excess of £85 million – which is ahead of our target for this stage in our programme. Following a review of the transformation programme, we are refocusing the next phase of our efforts to ensure we have an effective banking platform supported by underlying systems that are robust and secure, while at the same time investing in new fit-for-purpose infrastructure, backed up by effective resilience and disaster recovery.

I am confident that the momentum behind our on-going transformation and change programmes will deliver further benefits and customer service improvements throughout 2015-16 as we deliver student funding even more efficiently and effectively.

Whatever challenges lie ahead I am grateful for, and remain confident in the professionalism and commitment shown by our employees in Glasgow, Hillington, Darlington and Llandudno Junction.



Mick Lavery

Chief Executive and Accounting Officer

03.

ABOUT THE STUDENT LOANS COMPANY

The Student Loans Company (SLC) is a non-profit making Government-owned organisation set up to provide loans and grants to students at universities and colleges across the UK.

03. ABOUT THE STUDENT LOANS COMPANY

The Student Loans Company (SLC) is a non-profit making Government-owned organisation set up in 1989 to provide loans and grants to students at universities and colleges across the UK. We play a central role in supporting the Higher Education (HE) and Further Education (FE) sectors by: making timely and accurate payments of maintenance grants and loans to learners; and ensuring timely and accurate payments of tuition fee loans to HE and FE providers.

We do this by working with the Departments for Business, Innovation & Skills (BIS), Education and Lifelong Learning (DELL, Scotland), Education and Skills (DfES, Wales) and Employment and Learning (DEL, Northern Ireland). We also work with the Student Awards Agency for Scotland (SAAS), Education and Library Boards in Northern Ireland, Higher Education (HE) and Further Education (FE) providers, HM Revenue & Customs (HMRC), HM Passport Office, Department of Work and Pensions (DWP) and other delivery partners.

SLC currently has 2,168 staff (2,012 Full Time Equivalent) on permanent contracts located across four sites: Glasgow (city centre), Glasgow (Hillington), Llandudno Junction and Darlington. We also have up to 1,500 additional staff supporting us at peak times of the academic year through outsourced service providers and via temporary or fixed term contracts.

OUR CORE FUNCTIONS

ASSESS

- provide information, advice and guidance (IAG) on student finance;
- process applications for loans and grants to students and learners in higher and further education

PAY

- make educational maintenance payments to students aged over 16 in Northern Ireland and Wales;
- pay tuition fees to higher and further education providers;
- pay maintenance grants and loans to students and learners;
- pay bursaries and scholarships on behalf of higher and further education providers

REPAY

- work with HMRC to collect loan repayments; and
- manage direct collection from customers making voluntary additional payments, living overseas or repaying grant and loan overpayments.

We also provide expert operational advice and high quality data and information to support Government Administrations' policy-making and analysis.

03. ABOUT THE STUDENT LOANS COMPANY

OUR VISION AND MISSION

Our Vision and Mission underpin the strategic direction of SLC, our core purpose and the values which shape our organisational culture and priorities.

Our Vision

is to be valued as a digital,
customer-focused centre
of excellence.

Digital captures the transition we are making from being an organisation that relies heavily on manual processes to one that will, for most customers, be wholly automated and accessed via the internet or mobile device.

Customer-focused reflects our aspiration to provide a high quality service to our customers, whatever their needs and preferences, allowing them to transact their business with us — whether it's accessing funding, making repayments or tracking their account — quickly, easily and conveniently. Customer feedback and requirements will shape the design of our systems and processes. It also marks our determination to get things right first time, so that we compare favourably with best-in-class customer service organisations.

Centre of excellence looks to the future. We already have a wide range of in-house expertise in assessment, payment and repayment services. As we replace our core systems, we will build the capacity to further develop and expand this expertise, enhancing our growing reputation as a centre of excellence in these areas. This will allow us to provide services beyond student finance and we will look to explore opportunities across Government and in new sectors.

03. ABOUT THE STUDENT LOANS COMPANY

Our Mission

is to enable our customers to invest in their futures by delivering secure, accurate and efficient assessment, payment and repayment services.

It sets out what we do, how we do it and why we do it. It describes our current remit – why we exist and what we are doing today, tomorrow and in the months ahead:

What we do: we assess eligibility, we make payments and we provide repayment services for student finance. Everyone at SLC – whatever their role – is supporting these activities, even if they are not directly involved in providing them.

How we do it: we focus on the need to do things right first time with minimum fuss, so that customers get what they need from us easily and effectively. Part of this is ensuring that we have the right balance between our back office support functions and our front office functions which directly deliver services to customers. This includes the need to deal with personal information carefully and sensitively.

Why we do it: to provide finance to our customers to invest in their futures. We help them access funding to enhance their knowledge, improve their skills and increase their opportunities, consequently contributing to economic growth.

03. ABOUT THE STUDENT LOANS COMPANY

WHAT WE DO

Our role is to make sure that valid applications for student finance are processed correctly within agreed timescales and that repayments are calculated and collected at the right time.

Looking to the future, we expect that Government and Devolved Administration policy will continue to diverge, particularly in regard to tuition fee support in HE, but also in FE following the introduction of a loans product to replace grant funding.

Student numbers will continue to grow with the removal of caps on student number controls and the announcement in the Autumn Statement in 2014, where the Chancellor signalled his intention to introduce loans for Postgraduate taught students. This was extended to include consideration of Postgraduate

Research students in the March 2015 Budget. All of these factors make it likely that the organisation SLC will further expand its current product and customer base.

Other factors, such as the potential introduction of Sharia compliant Alternative Finance Models and the Diamond Review of Higher Education Funding in Wales (due to report in 2016), are also likely to bring further change.

Fundamentally though, political events such as the 2015 General Election and elections in each of the Devolved Administrations in 2016 will bring further changes for SLC in terms of policy, product and service delivery.

04.

STUDENT LOANS COMPANY STRATEGIC REPORT

Our strategy is to use digital technologies to deliver our services and for our people to provide a customer-focused approach to that service, both of these elements contribute to the overarching Vision of being valued as a digital, customer-focused centre of excellence.

Notes to the Student Loans Company Strategic Report:

- Principal risks and uncertainties are detailed in the Governance Statement shown on pages 46 to 59.
- The financial statements have been prepared in accordance with the Companies Act 2006 and, as appropriate, the Government Financial Reporting Manual (FReM) and other guidance issued by HM Treasury and the Secretary of State for Business Innovation and Skills, where these go beyond the Companies Act 2006.

"As Chair of the Stakeholder Operations group I engage regularly with SLC staff from across the organisation. Business is conducted in an open and inclusive manner; challenge is welcomed and never dismissed. Over the past year the group has become increasingly engaged with the SLC's broad transformation journey and some significant enhancements to the service delivered to students have been implemented as a direct result of input from the group. This is testament to the open and engaged approach that the SLC has adopted with regard to stakeholder involvement and in turn has increased the trust from the sector representatives in engaging with the SLC."

Dean Pateman
Academic Registrar, Imperial College London and
Chair of SLC Stakeholder Operations Group

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

Progressing towards our Vision

"To be a digital,
customer-focused centre
of excellence"

Throughout 2014-15 we made further progress towards our Vision by delivering a mix of business, technical and organisational changes as part of our transformation and change programmes.

We use Google Analytics to monitor in real time our customers' behaviours as they use our on-line transactional services to apply for their student funding package and this insight informed a number of technical changes to our systems to improve the customer experience.

We established a new Digital Delivery Team and, in keeping with the Government Digital Service strategy, are making continuous improvements to our online services. The aim, ultimately, is to make it as easy as possible for our customers to apply for student funding and to track and update their online application.

At the same time we experienced increased volumes, greater complexity and new policy requirements - all of

which require new and more robust technology platforms coupled with new ways of working, with our services better aligned to customer and business needs.

We recognise that to succeed we need to align our processes, our systems and our people to ensure that we have a core team focused on delivering the highest level of customer service to our customers. The work of our teams, whether they are in our Glasgow, Hillington, Darlington or Llandudno Junction offices, is clearly bearing fruit as our efforts have resulted in our highest ever scores in terms of customer service satisfaction.

Our progress is not only evident through our improved customer satisfaction scores but is also reported through our Benefits Realisation Framework which we have worked on over the last year with an external partner. This framework has helped us identify £1.2m of benefits in FY 13-14 and £5.2m in FY 14-15 achieved through customer-focused improvements to operational processes, changes to working practices through strengthening of commercial skills and restructuring of the organisation to support the Vision.

"It was great to talk to the presenters [at the showcase event]. They showed such understanding of why they are doing the work. They were alert to new ideas and I got a real sense of determination to make the transformation happen."

**Professor Dame
Glynis Breakwell**
Non-Executive Director

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

We have worked hard to keep everyone who works at SLC informed and involved in our progress towards our Vision. We have a range of channels and techniques at our disposal, from all staff newsletters to open house showcases in Glasgow and Darlington, alongside a dedicated area on the intranet, with guest blogs.

In December 2014 we ran our first transformation and change showcase for SLC Board members to let them see and hear firsthand from those working on developing the new systems and those using them how we are changing and improving our service and the positive impact that has on customer experience.

From the launch of the first phase of the new HEI Courses Management Service in October 2014 to the complete redesign of the way that customers register and account with us, we carried out extensive usability testing, monitored and responded to customer feedback by applying real time fixes or enhancements to our

on-line services. This agile approach is a demonstration of our commitment to being a customer-focused organisation.

Improving our digital offering is not restricted to our external customers - during the financial year under review we rolled out new secure PC-based operating systems to all our staff across the entire SLC estate.

At the same time, SLC was notified that its Public Services Network (PSN) had been re-accredited. This is important to us as it allows the organisation to continue to use critical Government services alongside HMRC, DWP and HM Passport Office.

In December, a £20m Information Security Programme business case was approved. This will strengthen the way we protect the Company's information assets, ensuring that the right people get the information they need, whether on paper or by electronic means, while protecting information from others.

"By viewing the information on social media, I was able to extract enough information to feel confident about taking the next step and that was when I made the absolute decision to call to make the application."

Stuart

Mature 1st year student studying Childhood Studies and Child Psychology

"Everything was straightforward, right from the very beginning. I just followed the steps, did what I was required to do, and they did the rest of it. Recommend it to anyone, for its reliability and fairness."

Patricia

3rd year student studying Business Studies with Human Resources Management in London

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

Delivering our Mission

"Enabling our customers to invest in their futures by delivering secure, accurate and efficient assessment, payment and repayment services"

Every year SLC promotes a series of customer messages at key points during the application and payment cycles. This year, the 'apply now' marketing campaign used a blend of traditional marketing techniques alongside social media messaging to target new and returning students with information on how and when to apply for loans and grants.

We pro-actively sought feedback from our customers on the new online application process we launched this year. The reaction was positive and constructive, with online application website satisfaction moving up seven percentage points to 85% over the calendar year to December 2014. As part of our process of continuous improvement, we work closely with our customers, seek their feedback and incorporate this into the changes we will make ahead of the launch of the application systems and services for the academic year 2016/17.

Early in 2014-15 SLC launched a new comprehensive student funding service on behalf of the Welsh Government. This came after more than two years of detailed planning, designing, building the systems and securing the right people and premises to enable us to bring all of this to life. The project involved SLC staff working with their counterparts in DfES and in the 22 Welsh local authorities to transfer around 275,000 existing historical accounts and some 6,000 hard copy and electronic files to SLC. This was completed at the end of March 2015 and culminated in a seamless transition to SLC which now provides and manages a modernised end to end application, assessment, payment and repayments services for students in Wales.

"My role is varied and no two days are ever the same. I provide the creative direction for Marketing and deliver dynamic and customer focused campaign and communications plans. For me, with the right team, the formula is simple. The right message is created in the right format, and delivered on the right channel - to the right audience at the right time."

Tracy McAllister
Campaign and
Communications Manager,
Marketing Division

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

The Company often hosts visits from various partner organisations at our Operational sites in Glasgow and Darlington. These are typically representative bodies of the HE and FE sectors and this type of engagement activity strengthens relationships with these key delivery partners. The visits help SLC deliver its Mission through increased understanding of the requirements of these organisations and their students. We also welcome and host visits from universities and colleges themselves; one such visit this year was by The Open University (OU) at which they presented an overview of their service to SLC employees. Teams from both organisations then worked together as part of a drive to identify ways we could improve our services to our mutual customers - the students.

The Chief Executive and the Executive Leadership Team played an active role in engaging with our key delivery

partners, both through the well established Stakeholder Forums and by speaking regularly at key industry conferences and events such as the National Association of Student Money Advisers (NASMA) conference in July last year.

SLC Chairman Christian Brodie presided over the annual SLC HEI Student Support Seminar in Reading in March 2015, with almost 500 delegates from across a range of HE institutions attending the three day conference. The agenda included workshops on SLC's online services and presentations from our Executive Directors and Senior Management Team. Such events also provide an excellent opportunity for SLC staff to meet with HE customers to discuss issues affecting the sector and get feedback on how we support them.

"I joined SLC in September 2008 and my role sees me cover various aspects of student funding. I get job satisfaction from providing good customer service and enjoy the opportunity to be able to deal with our customers in English or Welsh."

"Ymunais SLC ym mis Medi 2008, mae fy rôl yn fy ngalluogi i ymdrin a gwahanol agweddau o gyllid myfyrwyr. Rwy'n cael boddhad wrth ddarparu gwasnaeth o safon uchel i'n cwsmeriaid, ag hefyd yn cael y cyfle i ddelio gyda cwsmeriaid yn y Gymraeg ar Saesneg."

Eleri Rose

Customer Advisor, Llandudno - Cyngorydd Gwsmeriaid Llandudno

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

Numbers at a glance

- Hold and manage the personal details of 6.9 million customers
- Realise cost savings of in excess of £85 million through the life-cycle of our transformation and change programme
- Manage a loan book with a total gross value of £74 billion
- Collect £2 billion in repayments
- Pay £7 billion in maintenance loans and grants and around £7.5 billion to learning providers in further and higher education
- Process 1.7 million student finance applications per annum.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

Numbers at a glance

- The Student Room Student Finance Zone: 45,000 visits in FY 2014/15
- Cumulative benefits target exceeded by 94%
- Call reduction benefits of £585 thousand
- Work closely with 825 Higher Education Institutions (HEIs), 570 Learning Providers and 650 Learning Centres
- 82% sponsor matching via VHI (up from 75%)
- SFE 'Quick Start Guides': 34,000 views across 12,000 individual sessions and 250 downloads of syndication link pack, from launch (Jan 2015) to deadline (April 2015)

"I have been employed for 23 years with the Company, having worked in all Operational areas and have assisted with several transformation initiatives but have remained in this role for 13 years as it is interesting and extremely challenging. I gained my Business Degree with the Company and this has nurtured the relevant skills to provide the best service for our customers."

Moir Miller
Customer Relations
Co-ordinator

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

Managing our people

By the end of 2014 the new Executive Leadership and Senior Management teams had been established with all key appointments made. The primary focus of the Executive is to provide strong leadership to ensure the organisation remains on track in terms of delivering against its Vision, while the focus of the senior management team is on delivering the Mission.

As part of the transformation of SLC we are introducing a rigorous process management framework. This will allow us to formally map, study, benchmark and control our key processes whether they are leading, enabling or delivery processes. We will also take the opportunity to realign how our people work – bringing them closer together in both virtual and physical teams to work in a customer-focused way that coordinates activities aligned by process and by product, rather than on a functional basis.

We will coordinate and align people in a logical way and one that supports the Government's principles of Digital and Agile working. This will apply to both how we run our 'business as usual' operational activities and our 'change' projects. Ultimately we expect to see opportunities for improvement identified in the former being addressed by, and delivered as part of, our change agendas. A key part of this is in bringing our new IT and Digital teams closer to the business units they are supporting. We have already made progress here having established a new Digital Delivery Team based in Darlington, who are working closely with the operational staff based there.

The SLC has been an Investors in People (IiP) accredited organisation since 2000 and in the year under review we were pleased to retain our Silver status. IiP provides a benchmark for people management best practice, which covers everything from business planning, leadership and management effectiveness to performance measurement. Under the review we were tested against a number of evidence requirements and IiP assessors conducted interviews with a broad sample of employees from across the SLC. We will continue to strive to maintain or better our annual IiP scores each year.

Our annual People Insight Survey ran throughout the month of November 2014 with a strong response rate of 71%, which was similar to the participation rate for the previous year's survey. Our survey provider, BMG Research, analysed and collated the data, produced a series of reports and facilitated four Directorate workshops. From these we created a Corporate Action Plan and individual Directorate Action Plans, which will be owned by the Executive and Senior Management Teams.

"I have worked at SLC for six years, starting as an Admin Assistant and working my way to Team Leader in charge of a team responsible for ensuring that all original supporting evidence received for an application is returned safely to either the student or their sponsor."

Tanya Greenhall
Evidence Return Team
Manager, Darlington

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

The results of the 14/15 survey were disappointing as they have shown a slight decrease in engagement scores amongst our people. Whilst this may be to be expected in a organisation going through so much change (technical, business and senior management) we have nonetheless committed to stepping up our efforts to drive up employee engagement, as we recognise this is important to the success of SLC.

If we can increase our employee engagement score it will not only have an impact on organisational success, but will also influence positively our scores for how likely our employees are to recommend SLC as a good place to work and the motivation of staff.

While 78% of our people agreed that they are kept informed about what is happening within their team, only half agreed that they are kept informed about what is happening within the organisation. Some of the ways we will look to address this is by improving reach and visibility of ELT and SMT to help employees to understand the role of our leaders, what they are doing and better explain some of the decisions made at an organisational and local level. At the same time the introduction of a manager briefing pack which will help to keep employees informed and ensure that they are getting consistent messages. We are also creating employee forums which will support working as one team and better understand what goes on in other areas.

It is testament to our people that despite the decrease in engagement as measured by the survey, the year under review has arguably been SLC's best ever in terms of performance of our core role in student funding. It is clear the culture within SLC of staff going the extra mile prevails and this is

recognised as one of the organisation's key strengths.

In October 2014 we also undertook a survey to gauge the equality, diversity and inclusion (EDI) cultural landscape in the Company. This created some immediate actions, including a module for the Leadership Development Programme on unconscious and organisational bias. Further actions have been recommended and will be considered along with the results of the People Insight Survey, to support the creation of a single action plan.

- Employees
1125 male
1384 female
- Senior Managers
51 male
61 female
- Directors (including Board members)
8 male
3 female

We have developed an inclusive design and communications strategy that will be launched in FY15-16 to help our staff understand their and our legal obligations and provide guidance to anyone who produces materials, e.g. documents, web content, presentations to make sure that all information is accessible to our customers, stakeholders and employees. Our Equality Impact Assessment Toolkit has also been redesigned to encourage anyone proposing changes to consider the equality impacts.

Training of key business users is underway and preliminary work has been undertaken to incorporate this requirement into the performance management framework and our drive to further embed EDI activity will continue in FY15-16.

"I am passionate about protecting the public purse and my influence in the counter fraud community is extended by membership of the BIS Fraud Working Group and links to the Cabinet Office Fraud, Error and Debt Working Groups."

Heather Laing
Head of Counter Fraud
Services at SLC

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.1 MANAGEMENT COMMENTARY ON BUSINESS PERFORMANCE

Managing public money

Over the course of the financial year 2014-15 SLC processed tuition fee payments totalling £7.5bn to HE and FE institutions across the UK, coupled with payments totalling £7bn in maintenance grants and loans to new and returning students, making SLC one of the largest users of the BACS system in the UK.

In the last year SLC processed repayments in conjunction with HMRC via PAYE to the value of £2bn across the entire Income Contingent Repayment (ICR) scheme. A further £46.7m was recovered in the form of overseas arrears - £19.8m, Recovery of Grant Overpayment - £21.3m and Loan overpayments £5.6m. The whole issue of overseas arrears recovery and overpaid grant recovery will continue as a prominent aspect of SLC's work attracting both political and media attention.

The last review period has also seen SLC respond to and develop improvements to recovery processes as recommended via the National Audit Office (NAO) / Public Accounts Committee. A number of pilot exercises have been initiated which will carry forward to the next review period, but have already proven to be successful.

As an organisation that is responsible for assessing, paying and collecting significant funds, SLC must ensure that it minimises the opportunity for both genuine error and fraud, by individuals or institutions, and be vigilant to the

threat from organised criminal gangs, particularly given the increased threats from cyber related activity. SLC has a well-established counter fraud team that not only investigates allegations of fraud but also instigates intelligence-led investigations based on analytics and trends or other application characteristics that arouse suspicion. In the year under review, the team stopped over £15m of public funds being claimed by fraudsters and currently generates a return, in terms of savings, of £19 for every £1 spend.

SLC is a member of Credit Industry Fraud Avoidance System known as CIFAS, the UK's fraud prevention service and work with Scotland Yard and local police forces during investigations where student finance has been targeted.

Certain aspects of the Government's reforms of Higher Education came under review during the year with the NAO investigation into financial support for students at alternative higher education providers. This was followed by two Public Accounts Committee hearings which were attended by the SLC's Chief Executive as Accounting Officer. This brought into sharp focus the need for us to work with BIS, Higher Education Funding Council for England (HEFCE) and qualification awarding bodies (where this is not the higher education provider) to develop more rigorous and robust checking mechanisms for this new group of providers and their students, to ensure that funds are being disbursed appropriately.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Sources of Funds and Process for Agreeing Funding

The SLC is funded primarily by Grant-in-Aid. In accordance with HM Treasury Consolidated Budgeting Guidance for the year ending 31 March 2015; this is all received directly from the Department for Business, Innovation and Skills as our sponsor department with responsibility for England. They receive the relevant apportionments from the other devolved authorities for whom we perform work as listed below:

- Department for Education and Skills - Wales
- Student Awards Agency for Scotland
- Department for Employment and Learning - Northern Ireland

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

We apply for funding through an annual corporate financial planning cycle which forecasts funding requirements and culminating in an Annual Performance and Resource Agreement (APRA) letter confirming Grant-in-Aid available and income from other sources.

In the year ending 31 March 2015, income continued to be received from universities and colleges which have elected to have the Student Loans Company administer their bursaries and scholarship payments under our Higher Education Bursary and Scholarship Scheme.

Other funding is received from third parties in relation to contracts for administration of services to those parties and from recharging customers for certain debt recovery costs we incur.

Financial Management

During the year ending 31 March 2015 the Company delivered the majority of the objectives as set out within the business plan and the targets as set within the balanced scorecard, as set out on pages 25 to 34.

For the year ending 31 March 2015 our APRA allocation, which determines the total revenue and capital expenditure we can incur as measured by Government expenditure classifications, was £194.9 million. The financial year outturn was £164.1 million, an underspend of £30.7 million. While the Company under spent, the scorecard measure as detailed on page 33 is recorded as Red due to the underspend being greater than 5% of the monitored budget.

	Monitored Budget £000	Outturn £000	Variance £000	
Operating budget	129,419	121,667	7,752	underspend
Deliver programme	14,327	11,732	2,595	underspend
Transformation programme	51,104	30,703	20,401	underspend
Total expenditure	194,850	164,102	30,748	underspend

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Final Outturn	£000
Total expenditure per financial statements	134,723
Amortisation of deferred capital receipts	6,101
Deferred capital receipts on disposals	(16)
Capital additions - tangible	4,836
Capital additions - intangible	18,458
Total	164,102

Operating expenses showed an outturn of £121.7 million against the £129.4 million monitored budget, an underspend of £7.8 million. This was mainly in relation to movements in the pension scheme valuation at 31 March after the company met its in year responsibilities to address the pension scheme deficit as agreed with the Trustees of the pension scheme. These movements were not reflected in the monitored budget position however these movements were communicated to shareholders during the year.

Other programme expenditure showed an underspend of £2.6 million, with a £11.7 million outturn against a monitored budget position of £14.3 million. This was due to timing issues in addition to a decision to defer certain repayment project work to align these with the forthcoming repayment strategy. These movements were communicated to shareholders during the year.

Transformation programme expenditure showed an underspend of £20.4 million, with a £30.7 million outturn against a monitored budget position of £51.1 million. This is mainly due to a re-planning exercise of the deliverables within the programme to prioritise work streams in addition to delays in the requirement for capital purchases to support the

implementation of new internally developed software. The spend is anticipated to be incurred in the next financial year.

The funding position is reported on a monthly basis to the Executive Leadership Team and the Main Board. Analysis of expenditure at funding authority level is provided, split by operating, deliver programme, transformation programme and capital spend. In addition, detailed variance analysis is performed at directorate level and by expenditure type. Monthly re-forecasts are performed throughout the year. This reporting is supplemented by 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 and to provide costing for business cases for future developments.

The Student Loans Company continually seeks efficiencies. We actively seek opportunities to change current practices to maintain customer service at a reduced unit cost. The transformation programme supports this theme to deliver efficiencies within existing processes and delivered £5.2 million in efficiencies in the year ending 31 March 2015.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Performance Measurement

The Student Loans Company's Balanced Scorecard consists of twenty-eight measurements, grouped within the four main objectives of the Company's Business Plan for the Financial Year (FY) 2014-2015.

Many of these measurements, along with their targets, were agreed by the four UK Government Administrations, and set out in the Annual Performance and Resource Agreement (APRA). Additional measurements and targets were agreed by the SLC Main Board.

The Balanced Scorecard has been the Main Board's formal vehicle for monitoring progress against performance targets on a monthly basis. In addition, Ministers and BIS senior officials have conducted formal quarterly reviews of SLC's performance on the Balanced Scorecard measures.

The Balanced Scorecard again showed strong performance in FY 2014-15. This is important because it represents SLC's actual performance against APRA and Ministerial commitments; the details of which are internally audited and included here, in our published Annual Report and Accounts.

SLC's Mission is to enable our customers to invest in their futures by delivering secure, accurate and efficient **assessment, payment and repayment** services. Last year was our most successful year to date in relation to our core Mission activity: we met all targets for assessing applications and paying grants, loans and bursaries for all four UK Government administrations. SLC paid out £14.5 billion to students and institutions, in

loans, grants and bursaries covering tuition fees and maintenance - getting the right money to the right people at the right time. While doing so we answered some 6 million telephone calls and increased the First Contact Resolution rate for customers' calls by 7% points; (this follows last year's increase of 4% points).

The trend over five years now shows a strong story of continued year on year improvement in terms of how SLC delivers against its Ministerial commitments in providing a safe, efficient and improving student finance service, and we have seen overall customer satisfaction steadily increase during these years.

In February this year we also completed the Welsh modernisation project, successfully taking ownership of the accounts of all returning students in Wales from the Local Authorities. SLC is now responsible for processing all new and continuing students' applications. The transition involved transferring a database of around 275,000 accounts and almost 6,000 hard copy and electronic files from the 22 local authorities in Wales to SLC.

This year, SLC has worked closely with Government to introduce stronger designation checks for Alternative Education Providers, helping to minimise the risks of fraudulent activity in the sector.

A summary of performance against all measurements for FY2014-15 is described in the tables that follow.

Note that the GREEN, GREEN-AMBER, AMBER-RED and RED indicators in the tables that follow are assigned based on specific criteria as agreed in the measurement definitions. These criteria are different for each measurement and there is no 'general rule' for the relationship between the green limit and the limits for the other statuses.



04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

OUR VISION PERFORMANCE

Objective 1: Progress towards our Vision (to be valued as a digital, customer-focused centre of excellence).

Title	RAG
1.1 Core Systems Replacement	RED
1.2 New Technology Platforms	GREEN/ AMBER
1.3 In-Year Benefits Realisation	GREEN
1.4 The HE Reform programme	GREEN
1.5 New fit-for-purpose business model	GREEN/ AMBER
1.6 Transform Customer Experience	GREEN/ AMBER
1.7 Deliver Business Improvements	GREEN

This year, we have made significant progress towards our Vision to be valued as a digital, customer-focused centre of excellence. However, replacing our core systems has proven to be more complex than envisaged and in addition we have had to focus our efforts on delivering key policy related priorities for our stakeholders. As such we have not made the progress we had hoped and as a result, in certain aspects, we are behind schedule. These issues also underlie SLC underspending against this year's Capital budget.

Nevertheless,

- We have already realised substantial financial benefits from our Transformation Programme: £1.2m in benefits for FY13-14 have been audited by PwC, (£0.4m above target), with the total for FY14-15 being £5.2m giving an anticipated £85m over the lifetime of the programme against a target of £217m.
- The Digital Delivery team have worked on the continuous enhancement of our online applications throughout the year.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Major design, content and styling changes have been made in alignment with GDS standards and the rest of GOV.UK. Significant improvement to password reset flow has helped reduce the number of calls received from customers for assistance. In February the service was assessed against the Government's Digital by Default "live" standards and fully satisfied 25 of the 26 criteria. On 11th May, GDS confirmed that we had secured full accreditation against all 26 standards. SLC is now the only Government Agency that has two fully accredited live services, which is a significant achievement.

- Our new Courses Management Service allows HE Institutions to submit on-line course information which is used by our application and payment systems. The service will enable savings by improving the information presented to customers increasing 'right first time' applications and reducing the numbers of reassessments. Annual system rollover costs at the launch

of each Academic Year will also be reduced. The structure of the new service provides strengthened controls on the designation and eligibility for funding of providers and courses, particularly for alternative providers.

Built on a new platform, it has been designed and developed with a user-led focus and frequent ongoing direct input from provider representatives. This has resulted in high levels of customer satisfaction in the sector, both in the system itself and the enduring ability to respond to evolving needs. During usability testing sessions, provider staff have described the system as "intuitive and quick, and requires no training".

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

OUR MISSION PERFORMANCE

Objective 2: Deliver our Mission (enable our customers to invest in their futures by delivering secure, accurate and efficient assessment, payment and repayment services).

	Title	RAG
2.1	Process applications in line with agreed service standards	GREEN
2.2	Ensure timely payments to students and providers	GREEN
2.3	Administer Repayment with HMRC	GREEN
2.4	Improve customer and stakeholder satisfaction with our services	GREEN
2.5	Develop AY15/16 services on current systems and complete delivery of remaining AY14/15 services	GREEN
2.6	Launch the Welsh Modernised Service	GREEN
2.7	Sustain and Improve current business systems and processes	GREEN/AMBER

Assess:

During the financial year, SLC received 1.5 million applications for HE loans and grants, for full-time and part-time study in England and Wales, and assessed over 95% of these within 20 working days, well ahead of the 70% target. At the main September 2014 term-start, we were ready to pay over 99.6% of those customers who had applied by the published deadlines.

We also met our targets for processing Disabled Students Allowance (DSA) and Child Care Grants (CCG), as well as all green targets for Further Education assessments.

SLC answered just over 12,000 complaints this year; having nearly 6 million customers (applicants, students and repayers), this equates to about 2

per thousand customers. We provided substantive replies to 99.5% of complaints within 20 working days.

Pay:

This year, we again made well over 99% of payments to our students and education providers on the dates that they were due to be paid. Over the financial year we paid £7 billion in maintenance loans to students and £7.5 billion in tuition fees to universities and colleges across the UK.

Repay:

We are administering a loan book currently worth £74 billion. We collected £2 billion in Income Contingent Repayments during FY14-15, fully meeting our performance targets.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

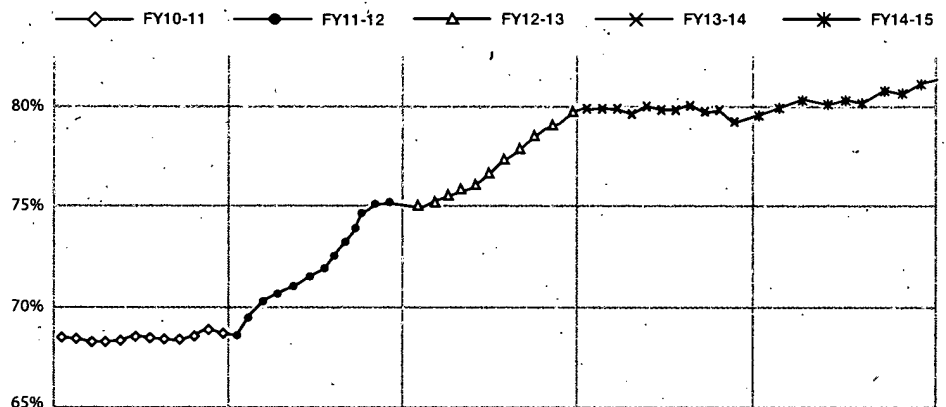
04.2 FINANCIAL COMMENTARY

Customer Satisfaction:

Customers' overall rating of their satisfaction with SLC has continued to improve in FY14-15, up from 79.4% last year to 81.4% this year. These ratings are derived from a weighted survey of students, their sponsors

(e.g. parents) and also those now in repayment. Within these groups, the increase has been stronger and more consistent for students and sponsors. For repayers, the increase has been more modest this year, with some volatility in the month-to-month results.

Overall Customer Satisfaction - 12 month rolling average



The graph above plots "12-month rolling-average" figures: each monthly data point is an average of scores over the immediate 12-month period at that date. This method smoothes over spikes and troughs, and shifts the focus onto the underlying trend. This longer-term view shows satisfaction

for England (SFE) only, because SLC has only this year begun providing comparable services for Wales. (Had we also included SFW surveys, the results would have been even better for recent months).

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Contact:

The Contact Centres met all their targets for FY14-15. Call volume reduced in the second half of the year with "Evidence Enquiries" and "Application Status queries" falling sharply. This year, the contact centres extended the hours for repayments enquiries, introducing Saturday opening.

First Contact Resolution results continue to improve, with an average figure of 57% of customer queries resolved straightaway (compared with 50% last year, and 46% the year before that).

Welsh Modernisation:

The Welsh Modernisation Programme was successfully completed this year. In February 2015, SLC became responsible for all student finance services in Wales, from our new central processing unit in Llandudno Junction.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

MANAGE OUR PEOPLE PERFORMANCE

Objective 3: Manage our People (by investing in them and equipping them to deliver a customer-focused service).

	Title	RAG
3.1	Communicate a clear shared Vision	GREEN/ AMBER
3.2	Drive our Leading The Way commitments	GREEN/ AMBER
3.3	Improve employee engagement	AMBER/ RED
3.4	Deliver Organisational Change and Capacity	AMBER/ RED
3.5	Continue to mainstream Equality, Diversity and Inclusion	GREEN
3.6	Invest in staff skills and capabilities	GREEN/ AMBER
3.7	Continue our close working relationship with our Trade Union	GREEN/ AMBER

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Work is underway to transform SLC into our Vision – to be valued as a digital, customer-focused centre of excellence. In this period of rapid change, we are restructuring and refocusing our organisational capabilities to meet the challenges of this new environment. We have made significant progress this year in developing a new Target Operating Model, which will define and map our operations within a Process Management Framework. The PMF provides clarity on SLC's core functions and describes the four key processes that underpin everything that we do, with focus on how these look from our customers' perspective.

This year, our FY14-15 Business Plan was introduced by the CEO, and shared individually with all staff, and weekly business and Transformation updates were emailed to all staff. Leading The Way values have been embedded in our performance evaluations, and we are developing an action plan from the results of our annual "People Insight" survey of all SLC staff.

The year has seen substantial organisational change, with a new design for the Executive Leadership Team and the Senior Management Team, and further redesign cascading from there. We also outsourced our mass printing and mailing function during FY14-15.

SLC has rolled out a Leadership Development Programme for senior and middle managers. There has been substantial investment in Agile and Digital Product Development training.

Our Equalities Forum has refocused its efforts and a module on unconscious bias is now included in our Leadership Development Programme.

Sickness Absence was 5% this year, and turnover 14%. HR engage weekly with our Trade Union (PCS) and the CEO or Deputy CEO also attends the Partnership Forum.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

MANAGE PUBLIC MONEY PERFORMANCE

Objective 4: Manage Public Money (by using Government sponsors' money wisely and ensuring value for money in all that we do).

Title	RAG
4.1 Deliver agreed services within budget	RED
4.2 Improve Value for Money and Commercial Capability	GREEN
4.3 Deliver initiatives and pilots aimed at increasing repayment yield	GREEN/ AMBER
4.4 Reduce Fraud and Error	GREEN
4.5 Develop and contribute to accountability arrangements and regulatory reform	GREEN
4.6 Assist Government in the secure and accurate sales of the loan book	GREEN/ AMBER
4.7 Contribute to BIS's Strategic Review	GREEN/ AMBER

Budget and Forecasting SLC's £22 million (11.5%) underspend for FY14-15 was mainly capital underspend for BIS HE, (arising from issues with progressing Core Systems Replacement).

SLC provides forecasts of the value of grants and loans that will need to be funded to the Governments in England, Wales and Northern Ireland - based on the applications that we assess. (SLC is responsible for paying, but not for assessing applications for Scotland.)

Both our mid-year and 10-month forecasts for this year's £11,463,478,000 total loan

requirement met the green accuracy target; our mid-year forecast for the £2,566,065,000 total grant requirement also met the green target, but our 10-month forecast for grants was slightly overstated, and green-amber.

Commercial Capability Total validated savings delivered by the Commercial Team for FY14-15 amount to £1,780,754 against a target of £1,500,000. Further savings are pending validation by BIS and this figure is therefore likely to increase slightly. Savings have been generated through tendering, supplier and contract management activities.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Increase Repayment Yield SLC began several pilot schemes in August 2014 to test the cost-effectiveness of initiatives aimed at increasing loan repayments. The new initiatives have been successful and will continue into FY15-16.

Reduce Fraud and Error In FY14-15, Counter Fraud Services investigated 3,500 Student Finance applications; after investigation 2,300 remain blocked and have led to savings of £14 million; 'household composition' checks have saved an additional £0.8 million, and phishing prevention activity has saved £0.3 million. The £15.1 million return equates to a Return on Investment of 19:1 on the cost of financing the Counter Fraud Services Team.

Our internal auditors' sample checks of assessments made for the AY14/15 academic sample resulted in a net financial variance of 0.47% of Higher Education assessments and 0.03% for Further Education assessments – both within the green targets for accuracy.

Over the last three years we have seen a continued decrease in our error rate; falling from 1.29% in FY2012-13 to 0.43% in FY2013-14 to 0.36% in FY2014-15.

Regulatory Framework and Accountability Arrangements The 2011 White Paper on HE funding reform was originally intended to be supported by regulatory reform underpinned by new primary legislation. The government's decision to defer legislation increased SLC accountability exposure around payment of student support.

Throughout FY14-15, SLC has worked with partners to develop the new designation system, which includes new control requirements related to Awarding Body registration reconciliations and course management for Alternative Providers. A new protocol agreed between SLC and BIS articulated the duties, obligations and procedures for managing incidents of payment irregularities.

SLC continues to support Higher Education Data and Information Improvement Programme (HEDIIP) projects to develop and agree standardised HE data and information structures, including the project to establish the use of the Unique Learner Number in HE.

Loan Book Sale Preparations SLC continues to work on preparedness for any future loan-book sales. During this year, we have built a new ICR debt sale data-warehouse, developed an Investor Report and supported vendor and legal due diligence activities.

Continue to contribute to BIS Strategic Review SLC has supported BIS throughout the year in initiatives relating to both the Strategic Review and also the Future Shape of BIS programme. A key piece of work has been a full review of the BIS SLC Framework document which sets out how SLC operates in relation to BIS as well as to the devolved UK Government Administrations.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Retirement and Death Benefit Scheme

In the year ending 31 March 2015, the Company in conjunction with the Department for Business, Innovation and Skills, our sponsoring Department, undertook remedial action to address the deficit of scheme, currently £23.1m.

The Company has committed to making payments of £36million, underwritten by the Department for Business, Innovation and Skills, over a ten year period specifically to reduce the deficit. In the year ending 31 March 2015 the contributions paid amounted to £7.2m.

The Department for Business, Innovation and Skills and the Company also made a commitment to increasing their contributions to cover the cost of the build up of further benefits to 27.1% of members' Pensionable Salaries, effective from 6 November 2014. These higher contributions are intended to mitigate the risk of further deterioration of the Scheme's position from having it open to future accruals.

Tax Status

For the year ending 31 March 2015, the Company was registered for VAT and we were able to recover part of our input VAT; those services continuing to support the sold mortgage style loan activities being exempt from VAT. The Student Loans Company is a not-for-profit organisation, but we pay corporation tax in respect of interest earned and on the profits arising from the administration contracts for services to third parties and the bursary administration services provided to universities and colleges.

Financial Statements

The financial statements for the year ending 31 March 2015 are presented on pages 69 to 103. These statements have been audited with the unqualified audit report presented on pages 67 to 68.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Going Concern

The Company has negative equity at the statement of financial position date of £28.7m (2014: £21.9m). This arises largely from its obligations in respect of the retirement benefit obligations falling due in future years in accordance with the accounting treatment required by IAS 19 revised Employee Benefits, and additionally from a provision in respect of dilapidations arising from the Company's leasehold commitments. To the extent that they are not to be met from the Company's other sources of income, these liabilities may only be met by future grants or grant in aid from the Company's sponsoring departments. This is because, under the normal conventions applying to the Parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant in aid for the Company's business as usual operating expenditure for 2015-16, taking into account the amounts required to meet the Company's liabilities falling due in that year, has already been included in the Departments' estimates for that year, which have been approved by Parliament. There is no reason to believe that the Departments' 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 Statement of financial position is entirely a result of the recognition of pension liabilities and dilapidations provisions. There is no impact on SLC's ability to provide its services to either its customers or key business partners and, therefore, no changes are required to the way SLC operates.

Statement of Comprehensive Income

This statement is presented on page 69.

Grant-in-Aid is accrued to maintain the operating result for the year as "nil" with any balancing entry falling into the "Balances with Central Government Bodies" within debtors or creditors depending on the nature of the timing difference, with the exception of any impacts relating to future dilapidation provisions. 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.

The Company's operating expenditure of £133.8 million includes both the operational costs and the costs associated with the deliver project and transformation programme. The increase in expenditure this year reflects the increase in operational staff to support change through the transformation programme, increased restructuring costs as a result of efficiencies from the transformation programme and increased depreciation and amortisation costs resulting from increased capital purchases to support the ongoing change delivered through the transformation programme. Funding of those operating expenses are provided from the income generated from servicing contracts for third parties (£1.3 million) and other income (£0.1 million), with the balance of funding supplied in the form of Grant-in-Aid (£133.0 million). A decrease in income from servicing contracts for third parties was experienced due to the exceptional income for the mortgage style loan book sale in 2014. Other income increased this year due to additional funding to support an ICT infrastructure project which completed in year.

04. STUDENT LOANS COMPANY STRATEGIC REPORT

04.2 FINANCIAL COMMENTARY

Statement of Financial Position

This statement is presented on page 70.

The net liability of £28.7 million on the balance sheet principally consists of £4.2 million in relation to dilapidation provisions, £1.2 million deferred lease incentive and £23.1 million of pension liabilities. These liabilities may only be met by future grants or Grant-in-Aid from the Company's sponsoring departments 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 funding received in relation to capital spend is treated as deferred income within trade and other payables and released to the Statement of comprehensive income to match the depreciation charged each year on the assets purchased. However, as noted above, under the normal conventions applying to the Parliamentary control grants may not be issued in advance of need. As a result, any element of dilapidations provisions which is capitalised is not offset by deferred income.

Statement of Cash Flow

This statement, presented on page 72, presents the cash flows of the Student Loans Company. These cash flows relate to ongoing operating activities, including the deliver and transformation programme of the Company. The cash flows relating to the payment of funding to students as loans, grants or allowances and the repayments received from those customers who have entered repayment are not included in the Company's cash flow statement. These monetary transactions are conducted through bank accounts held "in trust" for the relevant funding authority and do not appear on the Company's Statement of financial position.

The Strategic report is prepared by order of the Board.



Mick Lavery

Chief Executive and Accounting Officer
25 June 2015

05.

REMUNERATION REPORT

FOR THE YEAR ENDED
31 MARCH 2015

This report sets out the remuneration policy in respect of the Student Loans Company Board Members and the Executive Leadership Team and provides details of their remuneration for the year ended 31 March 2015.

This report is prepared in accordance with the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 as appropriate, and the Government Financial Reporting Manual (FReM).

05. REMUNERATION REPORT

Student Loans Company Board

Student Loans Company Board Members, with the exception of the Chief Executive, are appointed for a fixed period of three years by the Secretary of State for Business, Innovation and Skills, the Minister for Education and Skills in Wales, the Scottish Ministers and the Minister for Employment and Learning in Northern Ireland (together "the relevant Ministers").

Board Members are appointed from a variety of backgrounds on the basis of their knowledge and experience gained in both the public and private sectors in industry, commerce and academic fields.

The Secretary of State for Business, Innovation and Skills in conjunction with the relevant Ministers, sets the level of remuneration for the Chairman and Board members (excluding the Chief Executive) and informs the Student Loans Company of any annual increase to be awarded.

The Board delegates certain responsibilities to the Remuneration and Nominations Committee as described below and in the Directors Report on pages 61 to 65.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee determines, and agrees with the Board, the framework for the selection, appointment and remuneration of the Executive Leadership Team, including the Chief Executive, and such other senior managers as it is designated by the Board to consider. All policies are set within the context of applicable Government guidelines and, where appropriate, the advice of the Senior Remuneration Oversight Committee at BIS.

In consultation with the Chairman, the Committee agrees the performance framework and the proposed annual performance related payment for the Chief Executive, which is subject to approval by the Secretary of State for Business, Innovation and Skills in conjunction with the relevant Ministers. The Committee determines the total individual remuneration package for other members of the Executive Leadership Team in consultation with the Chairman and the Chief Executive.

The members of the Remuneration and Nominations Committee who served during the year to 31 March 2015 were:

Glynis Breakwell (Chair)

Willie Gallagher

Richard Banks (from 30 March 2015)

The Chairman, Christian Brodie, attends the Remuneration and Nominations Committee by invitation.

05. REMUNERATION REPORT

Executive Leadership Team

The Executive Leadership Team is responsible for the day-to-day management of the Student Loans Company's activities and operations.

The Chief Executive, Mick Lavery, is a member of both the Board and the Executive Leadership Team.

The Company Secretary, John Brown, is a member of the Senior Management Team and supports both the Executive Leadership Team and the Board.

All Executive Leadership Team members are on standard Student Loans Company contracts of employment and have notice

periods of six months. If a member of the Executive Leadership Team's employment with the Student Loans Company is terminated on the grounds of redundancy, or in the interests of the efficiency of the organisation, service based compensation is applied.

Each member of the Executive Leadership Team has personal performance objectives, including specific measures that are required to be met and which will have a significant impact on the performance of the organisation. These targets and the Chief Executive's appraisal of their performance against them are subject to review by the Remuneration and Nominations Committee.

05. REMUNERATION REPORT

Executive Leadership Team Remuneration Policy

The Student Loans Company aims to ensure within the context of current Government guidelines that the remuneration packages offered to the Executive Leadership Team:-

- Enable the Student Loans Company to attract, retain and motivate high calibre executives;
- remunerate individuals fairly for individual responsibility and contribution, while providing an element of performance related pay reflecting the overall performance of the Student Loans Company, subject to public sector pay guidance/restrictions; and
- take account of salary policy within the rest of the Student Loans Company and the relationship that should exist between the remuneration of the Executive Leadership Team and that of other employees.

All salaries including the Chief Executive's are reviewed annually. Salary levels are established after taking into account external market levels and internal comparisons as well as individual responsibilities. Annual salary reviews also take into account the pay remit requirements of HM Treasury.

Executive Leadership Team members (including the Chief Executive) have the option of joining the Student Loans Retirement and Death Benefits

Scheme. As ordinary members, they contribute 6% of pensionable salary and from 6 November 2014, the Student Loans Company contributes 27.1% of employees' pensionable salary in line with the pension deficit reduction scheme as agreed with the Trustees of the pension scheme. Prior to 6 November 2014, the Student Loans Company contributed 15.6% of employees' pensionable salary. This is a final salary scheme that provides benefits at the retirement age of 65. These benefits consist of an annual pension based on a final pensionable salary and pensionable service, and a tax-free lump sum payable on retirement, which is equivalent to three times the annual pension.

In 2014, excluding the Chief Executive, the Company awarded Executive Leadership Team members a one-off performance related payment of £560 in accordance with the award to all staff earning above £21,000 in recompense for not applying a consolidated pay uplift. Subject to Remunerations and Nominations Committee approval, the Executive Leadership Team are eligible for consideration for a performance related bonus within the terms of the Company performance related payment scheme, awarding the top 25% performers, which complies with HM Treasury Guidance. There is a separate performance related award arrangement for the Chief Executive and this is described below.

05. REMUNERATION REPORT

Fees and Remuneration

The following information is subject to audit.

Fees paid to the Chairman and other non-executive Board Members who served in the year to 31 March 2015 were:

	2015 £000			2014 £000		
	Remuneration	Other expenses	Total	Remuneration	Other expenses	Total
Chairman and Board Members						
E Smith (Chairman) (left 31 October 2013)	-	-	-	29	2	31
C Brodie (Chairman) (from 1 February 2014)	50	8	58	8	3	11
G Breakwell (i)	9	2	11	22	3	25
D Edelman (left 31 July 2014)	3	1	4	9	1	10
W Gallagher (ii)	9	2	11	29	5	34
R Kennedy	9	1	10	9	1	10
M Yuille	9	3	12	9	1	10

On 30 March 2015, R Banks was appointed as a non-executive member of the Board.

Other expenses represent travel related costs to attend Board and other meetings as required by their appointment.

- (i) In 2014, G Breakwell received a temporary allowance for the responsibilities of acting Chairman from 1 November 2013 to 31 January 2014.
- (ii) From 1 May 2012 to 31 March 2014, in addition to the base fee, W Gallagher also received a temporary allowance of £19,500 per annum to reflect his additional commitment in relation to the Student Loans Company's Transformation Programme.

05. REMUNERATION REPORT

The Executive Leadership Team underwent a reorganisation on 1 April 2014, reducing the team from eight to five members including the Chief Executive. Remuneration of the Executive Leadership Team who served during the year to 31 March 2015 was:

Executive Leadership Team		2015					2014				
		Salary	Other benefits and expenses	Performance related pay	Pension contribution	Total	Salary	Other benefits and expenses	Performance related pay	Pension contribution	Total
		£000					£000				
M Lavery (i)	Chief Executive	160	41	-	33	234	160	28	-	24	212
D Wallace	Deputy Chief Executive and Executive Director of Finance, Strategy and Corporate Services	135	-	3	27	165	130	-	1	19	150
D Ross (ii)	Executive Director of Customer Services and Operations	120	5	-	24	149	120	62	1	18	201
P Mason	Director of Repayments, Counter Fraud and Commercial (from 05/01/15)	29	-	-	3	32	-	-	-	-	-
J Steed	Chief Digital Officer (from 02/09/14)	78	-	-	16	94	-	-	-	-	-
C Airey (iii)	Interim Chief Digital Officer (from 07/07/14 to 31/12/14)	108	11	-	11	130	-	-	-	-	-
G Simpson	Chief Information Officer and Transformation Director (to 22/07/14)	42	-	-	-	42	135	-	1	21	157

In 2014, excluding the Chief Executive, the Company awarded Executive Leadership Team members a one-off performance related payment of £560 in accordance with the award to all staff earning above £21,000 in recompense for not applying a consolidated pay uplift. Staff earning less than £21,000 received a consolidated pay uplift.

In 2015, excluding the Chief Executive, the Executive Leadership Team members were eligible for consideration for a performance related payment. The terms of the Company performance related payment scheme allows for an award to be made to the top 25% based on performance. The Deputy Chief Executive was awarded a payment within this scheme.

On 5 November 2014 the employer contributions for all staff in the SLC pension scheme were increased from 15.6% to 27.1% as part of the pension deficit reduction scheme as agreed with the Trustees of the pension scheme.

(i) Mr Lavery received £19,008 (2014: £13,258) in respect of a travel allowance. Taxable expenses in respect of Mr Lavery's travel amounted to £22,387 (2014: £14,950).

The terms of Mr Lavery's appointment as Chief Executive provide for a performance related payment of up to a maximum of £25,000 each year. He was awarded £17,500 for the year to 31 March

2015 however Mr Lavery waived this payment. In 2014, Mr Lavery also waived the awarded payment of £17,500 for the year to 31 March 2014.

The Student Loans Company made employer pension contributions of £32,937 (2014: £24,085) in respect of Mr Lavery.

(ii) Mr Ross's other benefits and expenses represent taxable car benefit amounting to £4,960 (2014: £12,432).

In 2014 Mr Ross's other benefits and expenses also included £31,739 in respect of an allowance to compensate for the requirement to be based in both Darlington and

Glasgow and taxable expenses in respect of travel amounting to £17,761. A change to working arrangements resulted in no taxable expenses or allowance for 2015.

It should be noted that the allowance to compensate for the requirement to be based in both Darlington and Glasgow in respect of 2014 included £12,596 determined and paid in relation to financial year 2013.

(iii) The Company contributed to an alternative pension scheme for Mr Airey, as his contract of employment did not allow for him to join the SLC Pension Scheme.

05. REMUNERATION REPORT

Retirement benefits of the Executive Leadership Team who served during the year to 31 March 2015 were:

Executive Leadership Team	Accrued pension and related lump sum at 31 March 2015 £000	Increase during the year to 31 March 2015 in accrued pension and related lump sum net of inflation. £000	Cash equivalent transfer value		
			At 31 March 2015 £000	At 31 March 2014 £000	Increase net of inflation £000
M Lavery	0 – 5 plus lump sum of 10 – 15	0 – 2.5 plus lump sum of 5 – 7.5	84	36	48
D Wallace	5 – 10 plus lump sum of 15 – 20	0 – 2.5 plus lump sum of 2.5 – 5	112	64	48
D Ross	20 – 25 plus lump sum of 65 – 70	0 – 2.5 plus lump sum of 0 – 2.5	493	361	127

Notes

- Transfer values have been calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 1996.
- Inflation over the year was 1.2%
- Any Additional Voluntary Contributions paid by Directors and the resulting benefits are not shown.
- “Increase net of inflation” does not include a deduction for member contributions.
- G Simpson left the scheme on 31 March 2014.
- Due to the nature of C Airey’s contract of employment, he was ineligible to join the SLC pension scheme.
- P Mason and J Steed served as directors for the Student Loans Company but did not accrue pension benefits within the scheme during the year to 31 March 2015.

05. REMUNERATION REPORT

Median Remuneration

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The total annualised remuneration of the Student Loans Company's highest-paid director who is a member of the Executive Leadership Team and who was still an employee of the Company at 31 March 2015 was £201,396 (2014: £188,208), based on the information in the table and footnotes on page 43. This was 10.8 times (2014: 9.8) the median remuneration of the workforce, which was £18,620 (2014: £19,266).

No employees received remuneration in excess of the highest paid director in either 2014 or 2015.

	2015	2014
Highest paid director's total remuneration	201,396	188,208
Median total remuneration	18,620	19,266
Ratio	10.8	9.8

Total remuneration includes salary, non-consolidated performance related pay and benefits-in-kind. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The highest paid director's total remuneration is the full-time equivalent annualised remuneration of the highest paid director who is a member of the Executive Leadership Team.

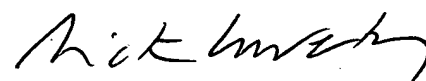
The median calculation includes only employees who were in a contract of employment with the Student Loans Company on 31 March each year, excluding non-executive Board Members as, while their fee is paid by the Student Loans Company, their fee arrangements are set by the relevant Ministers. The calculation includes agency and other temporary employees covering staff vacancies at 31 March.

All employees that have been included within the median calculation have had their total remuneration adjusted to show the annualised full-time equivalent, based on their contracted hours at 31 March and where applicable their start date during the year.

The Company was subject to further pay restrictions and distributed the majority of consolidated pay uplift to staff earning below £14,100, applying a nominal increase of £100 to those earning above that amount.

The median reduction reflects the 12% increase in the size of the group earning less than £19,000 compared to a net reduction in staff earning above that figure.

By order of the Board



Mick Laverty

Chief Executive and Accounting Officer
25 June 2015

06.

GOVERNANCE STATEMENT

FINANCIAL YEAR 2014-15

Governance Statement

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06. GOVERNANCE STATEMENT

The Student Loans Company is an NDPB and a company limited by shares under the companies act (wholly in public ownership). The Company is wholly owned by the Secretary of State for Business, Innovation and Skills, the Minister for Employment and Learning, Northern Ireland, the Minister for Education and Skills, Welsh Government and the Scottish Ministers. Since 1996, the Company has also been an executive non-departmental public body (NDPB). As an NDPB the Company is required to adhere to public sector standards, as outlined in Managing Public Money in all its operations and activities. It is also required to comply with the requirements of the Companies Act 2006 and to meet the requirements of good governance through adherence to Cabinet Office guidance on corporate governance within the public sector.

The role of the four Government 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; and
- Report to Parliament, including the Scottish Parliament and Ministers, and to Government on the general role and overall operation of the Company.

The Government Administrations contribute to governance of the Company through the Assessors, who attend Main Board meetings on behalf of the Government Shareholders. The

Assessors may also attend meetings of sub-committees of the Board to represent shareholders, and make comments as appropriate. Internal control and risk update reports are provided to the Audit Committee and the Main Board on a regular basis, and as such are considered by the Assessors.

In accordance with guidance, the Company has complied with 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance), which underpins provision C2 of the UK Corporate Governance Code, where possible. The Company has also complied with the guidance contained within Managing Public Money, issued by HM Treasury.

06.1 THE ACCOUNTING OFFICER'S RESPONSIBILITIES

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 resources for which I am personally responsible, in accordance with the responsibilities assigned to me by the Department for Business, Innovation and Skills (the Department), as described within the Framework Document, and in accordance with relevant Treasury guidance, in particular the Financial Reporting Manual (FReM), and Managing Public Money.

This Governance Statement manifests how these duties have been carried out during the course of the year, and in particular provides information on the Company's corporate governance and risk management arrangements.

06. GOVERNANCE STATEMENT

06.2 THE COMPANY'S GOVERNANCE FRAMEWORK

Non Executive Board Members are appointed by the Secretary of State for Business Innovation and Skills, and the Cabinet Secretary for Education and Lifelong Learning in the Scottish Government. The Independent External Member of the Audit Committee is appointed by the Company.

They are appointed from a variety of backgrounds on the basis of their knowledge and experience gained in both the public and private sectors in industry, commerce and academic fields. They are all independent of management and we are not aware of any business or other relationships which could interfere with the exercise of their independent judgment.

Information on the remuneration of the Non Executive Board Members and Executive Leadership Team is contained in the Company's Remuneration Report for FY 2014-15. In addition, biographical information on the Non Executive Board Members and Executive Leadership Team can be obtained at www.slc.co.uk.

The Main Board, Board Sub-Committees and Assessors

Main Board Members	From	To
Christian Brodie , Non Executive Chairman	02/2014	01/2017
David Edelman , Non Executive Director	08/2008	07/2014*
Willie Gallagher , Non Executive Director	04/2010	04/2016*
Rob Kennedy , Non Executive Director	06/2010	04/2016*
Michael Yuille , Non Executive Director	04/2010	04/2016*
Richard Banks , Non Executive Director	03/2015	09/2015
Professor Dame Glynis Breakwell , Non Executive Director	03/2011	02/2017*
Mick Lavery , Chief Executive	12/2012	Current
Chris Andrew , Company Secretary	02/2005	06/2014
John Brown Company Secretary	06/2014	Current

Executive Leadership Team

David Wallace, Deputy Chief Executive & Executive Director of Finance, Strategy & Corporate Services

Derek Ross, Executive Director of Customer Services & Operations

Paul Mason, Executive Director of Repayments, Counter Fraud & Commercial

Jacqueline Steed, Chief Digital Officer

Gordon Simpson, Chief Information Officer & Director of Transformation**

Chris Airey, Interim Chief Digital Officer***

Assessors

Ruth Elliot, represents the Secretary of State for Business, Innovation and Skills

Neil Surman, represents the Department for Education (Wales)

Christopher Jones, represents the Department for Education (Wales)

Stephen White, represents the Scottish Government

John Neill, represents the Department for Employment and Learning of Northern Ireland

Independent External Member of the Audit Committee

Ian Lee	09/2011	08/2017*
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* second term of appointment.

** left his position on the 22nd July 2014

*** joined SLC on 22 July 2014, left SLC on 31 December 2014

06. GOVERNANCE STATEMENT

06.2 THE COMPANY'S GOVERNANCE FRAMEWORK

Main Board

The Main Board's primary responsibilities are to:

- Oversee the development and implementation of the Company's delivery strategy, ensuring that it is consistent with the overall Vision and Mission, and the policy and resources framework determined by the Government Departments;
- Ensure that the Government Departments are kept informed of any changes that are likely to affect the strategic direction of the Company;
- Ensure that it receives and evaluates regular and timely information about the Company's performance against its aims, objectives, performance targets and plans, ensuring appropriate action is in hand to address any areas of underperformance;
- Ensure that any statutory or administrative requirements for the use of public funds are complied with, that the Board operates in accordance with company law and within the limits of its delegated authority, and that the Board takes into account guidance issued by the Government Departments;
- Ensure that the Board receives and reviews regular information concerning the management of the Company; is informed in a timely manner about any concerns about the Company's activities; and provides positive assurance to the Government Departments that appropriate action has been taken on such concerns;
- Set up an Audit Committee chaired by an independent non executive member;
- Assure itself of the effectiveness of the internal control and risk management systems and that they are actively monitored and regularly reviewed;
- Set up a Remuneration Committee which will approve the objectives, performance measures and remuneration terms for the Executive Leadership Team;
- Appoint, with the Responsible Minister's approval, a Chief Executive and, in consultation with the Government Departments, setting his or her performance objectives, ensuring that remuneration terms are linked to those objectives and give due weight to the proper management and use of public resources;
- Appoint an Executive Leadership Team to conduct the day to day business of the Company, ensuring an appropriate balance of skills and experience; and
- Ensure that the Company's responsibilities to its staff are satisfactorily discharged.

06. GOVERNANCE STATEMENT

06.2 THE COMPANY'S GOVERNANCE FRAMEWORK

The Assessors have the right to attend all Main Board meetings and Sub-Committee meetings on behalf of the shareholders. The Executive Leadership Team are in attendance at Main Board meetings, and Sub-Committee meetings by invitation.

I instigated a Board Effectiveness Review during FY 2014-15 as part of the Corporate Governance Programme. The review included a self-assessment exercise, a programme of one to one interviews with members of the Board and the Executive Leadership Team, benchmarking with other organisations, and a detailed analysis of the Board agenda over the previous twelve months. The review has resulted in the introduction of initiatives to improve the Board's overall effectiveness. These include a review of the skills and experience mix required by the Board, establishing succession plans and a recruitment timetable for Board members, embedding training and development plans for Non Executive Directors and a pilot focusing some Board meetings on a single strategic issue. The first two initiatives have been completed and the Chairman is working with BIS officials to recruit five new Non Executive Directors with the expectation that this will not only replace the existing Board members who are due to leave the Company in the next twelve months but also to add to the Board's expertise and experience.

Audit Committee

The Audit Committee supports the Board on matters relating to internal control and governance and associated assurance matters. The current members of the Audit Committee are Michael Yuille (Chair), Rob Kennedy, and Ian Lee, who is an Independent External member of the Committee. The Company Chair also attends by invitation.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee supports the Board on all aspects related to the appointment and the remuneration of Executive Directors, including the Chief Executive. The current members are Professor Dame Glynis Breakwell (Chair), Willie Gallagher, Richard Banks while the Company Chair attends by invitation.

06. GOVERNANCE STATEMENT

06.3 OVERVIEW OF THE PERFORMANCE OF THE COMPANY, MAIN BOARD, AND BOARD SUB-COMMITTEES

Internal Governance Framework

I have re-organised both the Executive Leadership Team, and the Senior Management Team to align with the Company's Vision and Mission. Responsibility for controlling and monitoring the Company's operational and financial management resides with the Executive Leadership Team, which has primary responsibility for setting the Company's strategic and business priorities and objectives, in line with the strategies set out by its stakeholders, as well as overseeing the Company's capacity and capability to deliver in terms of available resource. The Executive Leadership Team also leads in promoting Company standards of values and behavior. The Executive Leadership Team is supported by a number of internal sub-groups and committees dealing with specific areas of the Company's business. Decisions taken by the sub-groups on reserved matters are subject to approval at Main Board or Executive Leadership Team level, as appropriate.

Company Performance

I am pleased to report that FY 2014-15 has been our most successful year to date, in terms of core Mission activity. Areas to highlight include improvements in the online application process, service delivery, and customer satisfaction, demonstrated by an increase in first time contact resolution of 5%. This

in turn has driven an overall increase in customer satisfaction to 82%, and a reduction of 7.5% in complaints submitted, and of 36% in complaints upheld.

We received 97% of applications online, reducing paper applications by 57%, and have increased the accuracy of the HMRC income verification process from 75% to 82% against a background of a 7% increase in volumes. Going forward, our enhanced FY 2015-16 application process and continued focus on meeting customer needs will drive further benefits for customers and SLC, while we continue to enhance our governance and security arrangements.

We continue to progress towards our Vision, via a reset Transformation Programme. Our initial priorities are to replace our customer ledger, and to enhance our systems security and resilience, to ensure a sound platform for existing and future services. We will secure our transformation benefits targets, which currently have an anticipated lifetime value in excess of £85m from savings generated in FY13-14 and FY14-15.

06. GOVERNANCE STATEMENT

06.3 OVERVIEW OF THE PERFORMANCE OF THE COMPANY, MAIN BOARD, AND BOARD SUB-COMMITTEES

Attendance at the Main Board and Board Sub-Committees

	Number of meetings attended		
	Main Board	Audit Committee	Remuneration Committee
Main Board Members			
Christian Brodie , Non Executive Chair*	11	4	4
David Edelman , Non Executive Director**	4	-	-
Willie Gallagher , Non Executive Director	8	-	4
Rob Kennedy , Non Executive Director	10	4	-
Professor Dame Glynis Breakwell , Non Executive Director	7	-	4
Michael Yuille , Non Executive Director	11	4	-
Richard Banks , Non Executive Director***	1	-	-
Mick Lavery , Chief Executive*	11	4	4
Chris Andrew , Company Secretary**	3	1	-
John Brown , Company Secretary	8	3	1
Independent External Member of the Audit Committee			
Ian Lee	-	4	-

Number of meetings held during the year:

Main Board - 11

Audit Committee - 4

Remuneration & Nominations Committee - 4

* Attend the Audit Committee, and Remuneration & Nominations Committee, by invitation, and as non – members.

** Chris Andrew left the Company in June 2014 and David Edelman stood down in July 2014.

*** Richard Banks was appointed in March 2015.

06. GOVERNANCE STATEMENT

06.3 OVERVIEW OF THE PERFORMANCE OF THE COMPANY, MAIN BOARD, AND BOARD SUB-COMMITTEES

Main Board

Matters considered by the Main Board during FY 2014-15 included:

- Oversight of the Company's Vision and Mission;
- Oversight of the Company's Transformation Programme;
- Oversight of operational services and consideration of its delivery capacity and capability;
- Regular review of the Company's performance and its key corporate risks via the monthly Chief Executive's report and the supporting balanced scorecard summary report;
- Ongoing delivery of the Company's change programme on behalf of the Government Administrations;
- Consideration of the Company's people management performance and plans, including organisational design;
- Consideration of the Annual Report and Accounts for FY 2013-14;
- Consideration of the business plan and budget for both FY 2014-15, and FY 2015-16;
- Consideration of summary reports from the chairs of the Audit, and Remuneration and Nominations Committees;
- Oversight of the Company's Counter Fraud arrangements;
- Approval of the Company's Repayment Strategy for 2014-17;
- Approval of the Company's Commercial Strategy;
- Review of the work of the Regulatory Partnership Group in connection with the Government's HE reforms;
- Consideration of the National Audit Office study into the use of Alternative Providers of Higher Education and of the subsequent Public Accounts Committee (PAC) hearing;
- Consideration of the scope and progress on the Company's Information Security and Corporate Governance Programmes;
- Consideration of the Board Effectiveness review;
- Consideration of the preparation required for potential regulation under the Financial Conduct Authority (FCA) regime; and
- Review of the Company's pension scheme arrangements.

Eleven Board meetings were held between April 2014 and March 2015.

The Main Board minutes can be found at www.slc.co.uk.

06. GOVERNANCE STATEMENT

06.3 OVERVIEW OF THE PERFORMANCE OF THE COMPANY, MAIN BOARD, AND BOARD SUB-COMMITTEES

Audit Committee

Matters considered by the Audit Committee during FY 2014-15 included:

- The audit of the Annual Report and Accounts for FY 2013-14, incorporating the Company's accounting policies, which was recommended by the Audit Committee for approval by the Main Board;
- Approval of the external audit strategy for FY 2014-15;
- Approval of the internal audit strategy and audit plan for FY 2014-15;
- Review of quarterly internal audit summary reports and annual audit opinion for FY 2014-15;
- Review of the Company's Governance Statement;
- Consideration of the External Quality Assessment of the SLC Internal Audit function performed by the Chartered Institute of Internal Auditors;
- Consideration of risks and progress on the Transformation Programme;
- Consideration of the scope and progress of the Security and Corporate Governance Programmes;
- Consideration of progress made on implementing outstanding audit recommendations, focusing on fundamental and significant control weaknesses;
- Review of the student support payment accuracy audit report;
- Corporate information security and assurance;

- Corporate risk management arrangements; and
- Updates on legal matters.

Four Audit Committee meetings were held between April 2014 and March 2015.

Remuneration and Nominations Committee

Matters considered by the Remuneration and Nominations Committee during FY 2014-15 included:

- Setting and assessing the Chief Executive's pay, objective setting and performance review;
- The Executive Leadership Team's pay, bonus and reward terms;
- Consideration of the performance and performance reviews of the Executive Leadership Team;
- Consideration of the performance related pay assessment;
- The SLC 2014/15 Pay Remit;
- A review of the SLC Organisational Change policies, with recommendations presented to the Main Board; and
- Input to the Company's Annual Report production, focusing on the Remuneration Report.

Further information on the remuneration policy for Main Board Members and for the Executive Leadership Team is contained in the Remuneration Report.

Four Remuneration and Nominations Committees were held between April 2014, and March 2015.

06. GOVERNANCE STATEMENT

06.4 THE COMPANY'S RISK MANAGEMENT ARRANGEMENTS

Risk profile

The Company manages a large portfolio of risks, representative of the various challenges, concerns and considerations that are both internal and external to the business. I have put in place a structure of risk identification, assessment and escalation, and embedding this system into the culture of the Company. Risks are scored against a 'cautious' risk appetite, as agreed by the Main Board, and predominantly the Company operates on a low risk tolerance approach, with the SLC risk scoring matrix weighted to give particular significance to risks with a high impact. However there may be times, particularly within periods of intense business change, where a more 'open', risk and return based approach may be adopted (as defined by HM Treasury). A process has been established to capture and report on these instances and the relevant information (i.e. context, reasoning) is retained centrally. All risks that are identified are categorised against the business objectives set out in the Company's Business Plan, which can be found at www.slc.co.uk.

Risk Management Process

The system for providing assurance is built on managing the flow of information to and from risk owners, the Corporate Risk Manager, my Executive Leadership Team, the Audit Committee and the Main Board. The Board members and the Executive Leadership Team can flag risks either directly to the Corporate Risk Manager or by way of the Company Secretary. Managers can raise risks directly, either through their senior manager or through attendance at one of the internal sub-committee meetings attended by the Corporate Risk Manager. A number of regular forums

are in place within directorates which allow the escalation of risks to the Corporate Register or the re-scoring of an existing risk. Specific procedures are in place to facilitate management and escalation of risks within the programme environment, ensuring a structured approach to decision making and a clear route of escalation through project, programme and portfolio levels to the Corporate Register. Risk owners are at all times made aware of risks under their ownership and this extends to members of the Executive Leadership Team, who have full knowledge of any high level (red RAG status) corporate risks or issues within their area of responsibility.

Risk Reporting

A report detailing all high level risks and issues, together with underlying risk themes and mitigation response strategies is submitted to my Executive Leadership Team on a fortnightly basis, reported in alignment with the business objectives. The Executive Leadership Team will also receive risk reports relevant to the different internal sub-group meetings that they either chair or attend. For greater visibility, the Executive Risk Summary is included in the monthly SLC Balanced Scorecard report that is presented to the Main Board, which summarises the Company's performance against the measures and targets that are set out within the Company's Annual Performance and Resource Agreement (APRA). On a bi-monthly basis an expanded version of the report, including a wider view of the Company's risk portfolio including recent and planned mitigations and detailing any significant changes in SLC's risk management arrangements, is submitted for the Board's information and challenge.

06. GOVERNANCE STATEMENT

06.4 THE COMPANY'S RISK MANAGEMENT ARRANGEMENTS

Specific Risks

The key risk themes under consideration at the end of FY 2014-15 have been detailed below, accompanied by the mitigations planned to reduce them:

1. Transformation Programme

During FY 2014-15, working with our stakeholders, BIS, the Cabinet Office, and Government Digital Services (GDS), we reviewed and reset our Transformation Programme priorities.

As part of the reset process, we are bringing forward a number of individual business cases covering Security, Disaster Recovery and Data Centres, and CLASS Replacement. Pending business case approvals, we continue to run key business processes on legacy systems. While mitigating controls have and are being applied, some risks will remain.

2. Information Security

We have embarked upon a programme of activity, supported by Government Digital Service and CESG, to ensure that the Company's Information Security controls fully align with changes in the risk landscape.

3. Capacity to Deliver

At the end of FY 2014-15 there remains some uncertainty over the key policy areas to be delivered within FY 2015-16, and consequently the level of resource that will be required to ensure smooth

delivery of change to stakeholders' expectations, particularly in key areas such as digital delivery.

Establishment of the BIS / SLC Steering Group now facilitates discussions with stakeholders to ensure appropriate resources and funding are in place to deliver policy priorities.

4. Safeguarding Public Funds

As the Higher Education landscape changes, and alternative providers enter the market, the threat of loss or misuse of public funds is consequently increased.

Our organisation redesign introduces a Process Management Framework (PMF) which will embed loss reduction measures throughout the Company, and enhance controls, while in tandem we have increased capacity and capability, increasing our return on investment in fraud prevention measures to 19:1. We will continue to drive improvement through benchmarking and collaboration with other public and private sector organisations.

06. GOVERNANCE STATEMENT

06.5 THE COMPANY'S CORPORATE GOVERNANCE AND INTERNAL CONTROL ARRANGEMENTS

Internal Control System

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 (who undertake a planned review of all material risks and business areas over a three year period), the Executive Leadership Team, and comments made by the external auditors in their management letter and other reports. These sources of assurance are supplemented where required by checkpoint reports on major programmes undertaken by the Major Projects Authority, and by assurance reports on the Transformation Programme, undertaken by our appointed Quality Assurance partners. I am provided with additional assurances from each of the Executive Leadership Team over the controls they have put in place over the activities where they have delegated responsibility, as well as by the Company's Senior Management Team who certify compliance with key controls biannually.

The Company's 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. It is based on an

ongoing process designed to identify and prioritise the risks to the achievement of Company policies, aims and objectives, to evaluate the likelihood of those risks occurring, their impact and the need to manage them effectively. The system of internal control has been in place in the Company throughout the year ended 31 March 2015, and up to the date of approval of the annual report and financial statements, and accords with Treasury guidance.

I am advised on my review of the effectiveness of the system of internal control by the Main Board, the Audit Committee, the Executive Leadership Team, and its sub-boards. Where appropriate, plans to address weaknesses and improvements in the system of internal control are put in place, and these are tracked to completion. The paragraphs following contain specific assurances requested by the Department for Business, Innovation and Skills followed by an update on control issues arising in preceding years alongside updated mitigations in place, as well as information on control issues arising within FY 2014-15.

06. GOVERNANCE STATEMENT

06.5 THE COMPANY'S CORPORATE GOVERNANCE AND INTERNAL CONTROL ARRANGEMENTS

Assurances Requested by the Department of Business, Innovation and Skills

1. Compliance with Departmental Guidance to Prevent Tax Avoidance

I can confirm that at the 31st March 2015, the Company was compliant with government requirements.

2. Progress Update on Managing the Risk of Financial Loss Self Assessment Review

I can confirm that the Company takes the risk of financial loss very seriously. We have made good progress in improving controls where necessary, and continue to embed financial integrity, and prevention of financial loss within all Company activities.

3. Compliance with Austerity Measures

We use data analytics proactively to prevent fraud and identify vulnerabilities, and to quantify and prioritise the highest risk areas, and the introduction of the Process Management Framework will highlight any residual controls gaps and target remediation. Our response to detected fraud is underpinned by a Consequences Model. Our success in preventing fraud is demonstrated by our Return on Investment measure which stands at 19:1, and we continue to share good practice via the HE Fraud Resilience Group.

Updates on issues of concern arising in previous years which remain ongoing

The under noted issues have been recognised as concerns in previous years, and an update on the progress made in FY 2014-15 follows:

1. Disaster Recovery (DR) Capability

We continue to progress the DR designs and Service Continuity plans and we are undertaking a range of remedial works to improve the resilience of our facilities. The Company Disaster Recovery and Data Centre Consolidation strategy and supporting business case was approved by the SLC Board in March.

2. Procurement Issues

Procurement processes are being enhanced by better forward planning activities, and strengthening the team to support the Transformation Programme. Comprehensive training programmes have been delivered to budget holders on governance and controls over expenditure approvals. These changes will ensure that we comply with both the Transparency Agenda, and EU requirements.

06. GOVERNANCE STATEMENT

06.5 THE COMPANY'S CORPORATE GOVERNANCE AND INTERNAL CONTROL ARRANGEMENTS

Issues that have arisen during Financial Year 2014-15

During the current financial year the following issues have arisen:

1. Public Accounts Committee Hearings – Alternative Providers

Public Accounts Committee (PAC) hearings were held in December 2014 and March 2015 to examine arrangements for providing financial support to students at alternative providers. The PAC highlighted concerns around ensuring value for money was obtained and achievement of policy outcomes was measured and assessed. Recommendations arising from these hearings are currently being addressed by the Department for Business, Innovation and Skills, supported by the Company.

2. Audit Opinion on the Company's Internal Control Systems


The Head of Audit's opinion is that the internal control framework overall is adequate, albeit weaknesses remain within the areas of Information Security, Disaster Recovery arrangements, Systems Resilience, Data Governance, and Strategic Partners. Management are firmly

committed to addressing the issues noted, and a number of mitigating controls have been put in place to reduce the residual risk to a level that the Executive Leadership Team deem within risk appetite. Remedial actions are detailed in pages 56-58 of this statement.

Summary

In summary, where key control issues have been identified, appropriate steps have either been taken, or mitigations appropriate to the risks have been identified and recommendations have been presented to remedy the situation.

By order of the Board



Mick Lavery

Chief Executive and Accounting Officer
25 June 2015

07.

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Directors' Report and Financial Statements

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07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.1 DIRECTORS' REPORT

The Directors submit their annual report including financial statements of the SLC for the year ended 31 March 2015. The financial statements have been prepared in accordance with the Companies Act 2006 and, as appropriate, the Government Financial Reporting Manual (FReM), and other guidance issued by HM Treasury and the Secretary of State of Business, Innovation and Skills where the disclosure requirements of these go beyond the Companies Act 2006. The financial statements have been prepared and approved by the Directors in accordance with the International Financial Reporting Standards as adopted by the EU (Adopted IFRSs) and International Financial Reporting Interpretations Committee Interpretations.

Principal activities

The principal activities of the Student Loans Company are provided at page 8.

Dividends

The Student Loans Company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (2014: £Nil).

Directors and their interests

Christian Brodie
Non-Executive Chairman

Mick Lavery
Chief Executive

Professor Dame Glynis Breakwell
Non-Executive Director

David Edelman
Non-Executive Director (to 31 July 2014)

Willie Gallagher
Non-Executive Director

Rob Kennedy
Non-Executive Director

Michael Yuille
Non-Executive Director

Richard Banks
Non-Executive Director (from 30 March 2015)

For further information please see the Governance Statement on pages 46 to 59.

All Non-Executive Directors are considered to be independent.

None of the Directors had any interest in the shares of the SLC throughout either the year ended 31 March 2015 or 31 March 2014. The Student Loans Company is wholly owned by the Secretary State of Business, Innovation and Skills, the Minister for Education and Skills in Wales, the Scottish Ministers and the Minister for Employment and Learning in Northern Ireland.

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

The Secretary State of Business, Innovation and Skills was a shadow director of the Student Loans Company under section 251 of the Companies Act 2006 throughout the year.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.1 DIRECTORS' REPORT

Non Current Assets

Full details of the movement in non current assets are given in Notes 10 and 11 to the financial statements.

Employees

It is the Student Loans Company's aim to keep employees informed about its affairs and in particular about those matters that affect them directly. The Student Loans Company regularly issues all-staff emails, provides corporate information via cascade and feedback sessions, maintains a comprehensive Intranet site and makes use of recorded messages using "SLCtv". The Student Loans Company has additionally introduced showcase sessions to inform staff, management and Board members about the continued development within the transformation programme. The Student Loans Company has in place a Partnership Forum with its recognised trade union PCS and these meetings offer the opportunity to discuss and resolve employment matters.

The Student Loans Company is an Equal Opportunities Employer and was awarded the Double Tick, Disability standard (demonstrating our commitments to disabled individuals) and the Bronze Award for Healthy Working Lives.

More information on employees is contained in the Strategic Report on pages 13 to 37.

Retirement Benefits Scheme

Reference is made in Note 18 to the financial statements to the operation and performance of the Student Loans Company Retirements and Death Benefit Scheme. The Remuneration Report contains specific disclosures relating to the Executive Leadership Team.

Sickness Absence

Sickness absence is monitored on a rolling twelve month, full time equivalent basis and is a monitored scorecard measure. Sickness absence for the year ended 31 March 2015 amounted to 5.05% (2014: 5.2%).

For further information, please see the performance measurement section of the strategic report on page 25.

Information Losses

In the year ended 31 March 2015 the Student Loans Company reported one issue to the Information Commissioner's Office. As a result of a system defect, approximately 30,000 letters were issued to the future term-time addresses which students provided in their applications. As soon as the defect was discovered all print and postal services were suspended until the defect was rectified. The Company has sought to remediate issues by introducing more comprehensive system testing to prevent future occurrences.

The Student Loans Company have recorded the loss of 17 items of equipment. All devices were encrypted and not carrying personal information.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.1 DIRECTORS' REPORT

Corporate Governance

As an Executive NDPB, the Student Loans Company's control framework is set out in the SLC Framework Document. The Framework Document refers to the appropriate HM Government guidance on corporate governance, including Managing Public Money.

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

The Student Loans Company complies with Managing Public Money Code of Corporate Governance for Central Government. The Accounting Officer's Governance Statement for the year ended 31 March 2015 is provided on pages 46 to 59.

Student Loans Company Board

The Student Loans Company Board (the Board) is responsible for ensuring that effective corporate governance arrangements are in place that set out how the Student Loans Company is directed and controlled and the assurance on risk management and internal control is provided.

The Board is required to demonstrate high standards of corporate governance at all times and to ensure that best practice is followed consistent with the Combined Code on Corporate Governance and appropriate adaptations of Corporate Governance in the Central Government Departments Code of Good Practice.

The responsibilities of the Board are set out in the Governance Statement.

Remuneration

The remuneration for the Chairman and Non-Executive Board members is determined by the Secretary of State for Business, Innovation and Skills, the Minister for Education and Skills in Wales, the Scottish Ministers and the Minister for Employment and Learning in Northern Ireland. The remuneration of the Chief Executive is determined by the Board, subject to approval by the Secretary of State for Business, Innovation and Skills, the Minister for Education and Skills in Wales, the Scottish Ministers and the Minister for Employment and Learning in Northern Ireland.

The Non-Executive Board Members are appointed by the Secretary of State for Business, Innovation and Skills, the Minister for Education and Skills in Wales, the Scottish Ministers and the Minister for Employment and Learning in Northern Ireland, for a fixed term appointment of three years, which can be renewed once.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.1 DIRECTORS' REPORT

Remuneration and Nominations Committee

Members of the Committee are appointed by the Student Loans Company Board for an initial three-year term of office after which they may be appointed for one further term of office.

Assessors have the right to attend all Committee meetings on behalf of the shareholders. The Board determines the membership and terms of reference. The Chair of the Remuneration and Nominations Committee will report back to the Board after each meeting as required and the minutes of Committee meetings will be provided to the Board members for information. Remuneration and Nomination Committee meetings will normally be attended by the Chief Executive and the Head of Human Resources.

For further information, please see the Remuneration Report on page 38 and the Governance Statement on pages 46 to 59.

Audit Committee

The membership of the Committee consists of at least three individuals 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 Board has appointed an Independent External Member of the Audit Committee, who is appointed to the Committee but not the Board.

The Audit Committee is responsible for:

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

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.1 DIRECTORS' REPORT

- fraud management policies and practices and whistle-blowing processes;
- fraud monitoring and investigation activities within the Student Loans Company, by way of an Annual Fraud Overview report that is prepared by management;
- assurances relating to the adequacy of the Student Loans Company's risk management arrangements;
- input to the Remuneration and Nominations Committee to assist its deliberations on senior staff performance as it relates to effective internal control, governance and assurance.

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

Further details regarding the Audit committee can be found in the Governance statement on pages 46 to 59.

Statement of disclosure of information to the External Auditor

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Student Loans Company's External Auditor is unaware; and each Director has taken all 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 Student Loans Company's External Auditor is aware of that information.

External Auditor

All non-audit work undertaken by the External Auditor is approved by the Audit Committee. Details of all fees earned by the External Auditor are provided in note 4a of the annual accounts.

A resolution regarding the reappointment of Auditor to the Company was approved at the June 2015 Main Board meeting.

By order of the Board



Mick Lavery

Chief Executive and Accounting Officer

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.2 STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, 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 the Framework Agreement with the Department of Business Innovation and Skills, they are required to follow the principles of the Government Financial Reporting Manual 2014-15. Consequently they have elected under the Companies Act to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law and to provide the additional disclosures required by the Government Financial Reporting Manual 2014-15 where these go beyond the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 have decided to prepare a Directors' Remuneration Report in order to comply with the requirements of the Government Financial Reporting Manual 2014-15 in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, to the extent that they are relevant.

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.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.3 INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE STUDENT LOANS COMPANY LIMITED

We have audited the financial statements of Student Loans Company Limited for the year ended 31 March 2015 set out on pages 69 to 103. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. Where appropriate, the company also discloses that it has followed the principles of HM Treasury's Financial Reporting Manual 2014-15 and has provided the additional disclosures required by the Government Financial Reporting Manual 2014-15 where these go beyond the requirements of the Companies Act 2006.

In addition to our audit of the financial statements the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare (in addition to that required to be prepared) in order to comply with the requirements of HM Treasury's Financial Reporting Manual 2014-15 to include the information requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006, to the extent that they are relevant.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and in respect of the separate opinions in relation to financial regularity and the Directors' Remuneration Report, on terms that have been agreed. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and, in respect of the separate opinions in relation to financial regularity and the Directors' Remuneration Report, those matters that we have agreed to state to them in our report, and for no other purpose. To the

fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 66, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, caused by company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.3 INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE STUDENT LOANS COMPANY LIMITED

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity prescribed by the terms of our engagement

In our opinion in all material respects the expenditure and income have been applied to the purpose intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on other matter prescribed by the Companies Act 2006 and under the terms of our engagement

In our opinion:

- the part of the Directors' Remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to the extent that they are relevant; and

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory
Auditor**

Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

25 June 2015

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.4 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

	<i>Note</i>	2015 £000	2014 £000
Revenue	3	134,400	131,362
Expenditure:			
Staff costs	5	(73,521)	(72,068)
Restructuring costs	5	(1,832)	(999)
Depreciation and amortisation		(6,147)	(3,888)
Other administrative expenses		(52,337)	(53,949)
Operating profit		563	458
Finance income	6	27	20
Finance costs	7	(908)	(790)
Net financing expense		(881)	(770)
(Loss) on ordinary activities before taxation		(318)	(312)
Tax on result of ordinary activities	8	(5)	(1)
(Loss) on ordinary activities after taxation		(323)	(313)
Other comprehensive income:			
Actuarial (loss) on defined benefit pension scheme	18	(13,136)	(603)
Total comprehensive income for the period		(13,459)	(916)

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

The notes on pages 73 to 103 form an integral part of these financial statements.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.5 STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

	Note	2015 £000	2014 £000
Non-current assets			
Property, plant and equipment	10	15,857	15,479
Intangible assets	11	28,355	11,602
Total non-current assets		44,212	27,081
Current assets			
Trade and other receivables	13	6,591	10,914
Cash and cash equivalents	14	24,879	8,322
Total current assets		31,470	19,236
Total assets		75,682	46,317
Current liabilities			
Trade and other payables	15	(38,331)	(24,570)
Provisions	17	(1,203)	(1,460)
Corporation tax		(5)	(1)
Total current liabilities		(39,539)	(26,031)
Non-current assets plus net current assets		36,143	20,286
Non-current liabilities			
Trade and other payables	15	(37,516)	(22,185)
Provisions	17	(4,240)	(3,391)
Retirement benefit obligation	18	(23,100)	(16,597)
Total non-current liabilities		(64,856)	(42,173)
Net liabilities		(28,713)	(21,887)
Capital and reserves			
Called up share capital	20	-	-
General reserve		(28,713)	(21,887)
Total equity		(28,713)	(21,887)

The notes on pages 73 to 103 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 25 June 2015 and were signed on its behalf by:



Mick Lavery
Chief Executive and Accounting Officer

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.6 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2015

	<i>Note</i>	General Reserve £000
Balance at 1 April 2014		(21,887)
Net (loss)		(323)
Total pension cost recognised in statement of comprehensive income	18	(5,584)
Employer contribution in respect of retirement benefit	18	12,217
Actuarial (loss) in retirement benefit obligations	18	(13,136)
Balance at 31 March 2015		<u>(28,713)</u>

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.7 STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015 £000	2014 £000
Cash flow from operating activities			
(Loss) on ordinary activities after tax		(323)	(313)
<i>Adjustments for:</i>			
Depreciation	10	4,442	3,285
Amortisation	11	1,705	603
Amortisation of deferred capital receipts			
- Property, plant and equipment	16	(4,396)	(3,238)
- Intangible assets	16	(1,705)	(603)
(Gain)/Loss on disposal		(10)	5
Taxation	8	5	1
Finance costs	7	908	790
Finance income	6	(27)	(20)
		<u>599</u>	<u>510</u>
Decrease/(Increase) in trade and other receivables		3,415	(3,394)
Increase in trade and other payables		12,899	2,116
Increase in provisions		592	1,380
Cash generated from operating activities		<u>17,505</u>	<u>612</u>
Corporation tax paid		(4)	(3)
Corporation tax received		3	-
Net cash generated from operating activities		<u>17,504</u>	<u>609</u>
Cash flow from investing activities			
Finance income	6	27	20
Acquisition of property, plant and equipment	10	(4,836)	(6,208)
Acquisition of intangible assets	11	(19,458)	(11,530)
Proceeds from sales of property, plant and equipment		26	10
Net cash used in investing activities		<u>(24,241)</u>	<u>(17,708)</u>
Cash flow from financing activities			
Capital funding received from funding bodies		23,294	17,738
Net cash generated from financing activities		<u>23,294</u>	<u>17,738</u>
Net increase in cash and cash equivalents	14	<u>16,557</u>	<u>639</u>
Cash and cash equivalents at 1 April	14	8,322	7,683
Cash and cash equivalents at 31 March	14	<u>24,879</u>	<u>8,322</u>

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

Student Loans Company Limited is a company incorporated and domiciled in the UK. The Company is owned by the Secretary of State for Business, Innovation and Skills, the Minister for Education and Skills in Wales, the Scottish Ministers and the Minister for Employment and Learning in Northern Ireland.

The financial statements have been prepared in accordance with the Companies Act 2006 and, as appropriate, the Government Financial Reporting Manual ('FReM') and other guidance issued by HM Treasury and the Secretary of State for Business, Innovation and Skills where the disclosure requirements of these go beyond the Companies Act 2006. The financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and International Financial Reporting Interpretations Committee interpretations.

The most significant standards and interpretations which have been issued, although not yet endorsed by the EU, with an effective date after the date of these financial statements are as follows:

- IFRS 9 Financial Instruments – simplifies the classification, recognition and measurement requirements for financial assets, financial liabilities and some contracts to buy or sell non-financial items. This will be effective for the Company in 2018/19, if adopted by the EU.

- IFRS 15 Revenue from Contracts with Customers – specifies how and when revenue is recognised, using principles based five-step model. This will be effective for the Company in 2017 if adopted by the EU and may have an impact on the timing of recognition of the Company's revenue.

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Company in future periods.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements were authorised for issue by the Directors on 25 June 2015.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value:

- Financial instruments classified as fair value through profit or loss or as available for sale.
- Assets under development are valued at current costs. This is calculated by using the expenditure incurred to date. These are subject to impairment review.
- Tangible and intangible assets, other than assets under development, are stated at depreciated historic cost, as a proxy for fair value as specified in the FReM.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Going concern

The terms of the framework document between the Secretary of State for Business, Innovation and Skills, the Employability, Skills and Lifelong Learning Directorate of the Scottish Government, the Department of Employment and Learning in Northern Ireland, the Department for Education and Skills in the Welsh Assembly and the Company requires the Company to 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.

Where necessary, the Company will operate a negative equity position at the statement of financial position date to the extent that the Company's dilapidations and retirement benefit obligations are not to be met from the Company's other sources of income. These liabilities may only be met by future grants or grant in aid from the Company's sponsoring departments as, 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 is issued on the basis of operating expenditure for the coming year. Grant in aid for the Company's business as usual operating expenditure for 2015-16 has already been included in the sponsoring Departments' estimates for that year, which have been approved by Parliament. There is no reason to believe that the Departments' 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.

Unsold loans

In respect of unsold loans (i.e. those administered on behalf of the shareholders) and application of IAS 39, neither the loans nor the related obligation to repay the shareholders is included in the financial statements of the Company since:

- (a) in accordance with the terms of the Company's Framework Document 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 shareholders; and
- (b) under section 16.5 of the Framework Document, there is an agreement between the Company and the shareholders 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.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Use of estimates and judgement

The preparation of the financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The company made no critical judgements in applying accounting policies in these financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- **Provisions**

The dilapidations provision is based on external valuations provided by the Company's property consultants. The latest formal valuations were provided in September 2013 for the premises in Darlington, March 2012 for the premises in Glasgow and April 2007 for the premises in Hillington. The Company has obtained confirmation from the property consultants in March 2015 that these valuations remain relevant for the year ended 31 March 2015. Key assumptions are based on the lease expiry date and lease stipulations on the property condition upon that expiry date.

- **Retirement benefit obligations**

The Company's retirement benefit obligations are based on external valuations provided annually by the Company's actuaries. Key assumptions are based on current market conditions and the discount rate applied, representing the interest rate used to determine estimated future cash outflows anticipated to settle the Company's pension obligations.

Income

- **Revenue recognition**

Revenue is recognised when the amount of revenue can be reliably measured and where probable future economic benefit will flow to the entity.

- **Finance income**

Finance income comprises interest income on funds invested and is recognised as it accrues in the Statement of comprehensive income.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the Statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax, where applicable, is recognised in respect of all timing differences that have originated but not reversed at the Statement of financial position date. Deferred tax assets are recognised to the extent that it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Value Added Tax (VAT) is accounted for in the financial statements, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Statement of comprehensive income and included under the relevant expenditure heading; and
- irrecoverable VAT on the purchase of an asset is included in additions.

The net amount due to HM Revenue and Customs in respect of VAT is included within trade and other payables within the Statement of financial position.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Property, plant and equipment

Recognition

Property, plant and equipment are capitalised where: it is held for use in delivering services or for administrative purposes; it is probable that future economic benefits will flow to, or service potential be provided to, the Company; it is expected to be used for more than one financial year; and the cost of the item can be measured reliably.

Measurement

Items of property, plant and equipment are initially measured at cost, representing the costs directly attributable to the acquisition or construction of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

All assets are measured subsequently at fair value as follows:

- Completed assets are stated at depreciated historic cost, as a proxy for fair value as specified in the FReM.

Revaluation and impairment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each Statement of financial position.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised within other administrative expenses in the Statement of comprehensive income.

Depreciation

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

Short leasehold improvements	Over the unexpired period of the lease
Computer and other electronic equipment	3 to 5 years, or the lease period where applicable
Furniture, fixtures and fittings	Over 8 years, or the lease period where applicable
Motor vehicles	Over 3 years

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Intangible assets

Recognition

Intangible assets are recognised where the costs can be measured reliably and there is a clear future economic benefit attributable from the asset that will flow through to the Company.

Expenditure on research is not capitalised.

Expenditure on development is capitalised only where all of the following can be demonstrated in accordance with IAS 38:

- the project is technically feasible to the point of completion and will result in an intangible asset for use in the provision of services to the Company or to our customers;
- the Company intends to complete the asset and use it;
- the Company has the ability to use the asset;
- the intangible asset will generate probable future economic or service delivery benefits;
- adequate financial, technical and other resources are available to the Company to complete the development and use the asset; and
- the Company can measure reliably the expense attributable to the asset during development.

Websites that deliver services are assumed to be website developments that provide a means of delivering specific services to customers in the payment and repayment of products within the portfolio.

Measurement

All intangible assets recognised have finite useful lives and are measured at cost less accumulated amortisation. Cost for internally generated intangible assets is defined as the direct labour and other costs directly attributable to the development of the intangible asset.

Amortisation

Amortisation is calculated over the life of the asset. Amortisation is recognised in the Statement of comprehensive income on a straight-line basis over the useful life of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The expected useful lives for the current and comparative periods are as follows:

Internally generated software	3 to 5 years
Websites that deliver services	5 years
Software licences	Over the period of the licence

Amortisation methods, useful lives and residual values are reviewed at the end of each financial year and adjusted if appropriate.

Deferred capital receipts

Funding received from the funding bodies for the purpose of acquisition of property, plant and equipment and intangible assets, excluding the element relating to any capitalised dilapidation provision, is credited to the deferred capital receipts account and is released to the Statement of comprehensive income by amounts equal to the associated depreciation and amortisation charge.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Financial instruments

a) Financial assets

Classification

Financial instruments fall into the following category: at fair value through Statement of comprehensive income, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition.

As at the date of the Statement of financial position, the Company has only the following financial assets:

Financial assets included in current assets comprise 'trade receivables', 'prepayments and accrued income' and 'cash and cash equivalents'.

Recognition and measurement

Financial assets are recognised when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognised when the rights to receive the cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. These assets are recognised at fair value less any attributable costs.

Financial assets are assessed for indicators of impairment at each Statement of financial position date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have

been impacted. Objective evidence of impairment of our trade and other receivables includes significant financial difficulty of the counterparty or delinquency in payment. For certain types of receivable an assessment for impairment is also performed on a collective basis where objective evidence of impairment includes past experience of payment collection and the impact of legal challenges on enforceability.

Trade and other receivables represent other trade receivables and the outstanding balances with central government bodies.

Cash and cash equivalents represents cash in hand, and deposits held with banks, excluding deposits held in trust for the payments and repayments of student funding.

b) Financial liabilities

Classification

Financial liabilities fall into the following category: at fair value through Statement of comprehensive income, other financial liabilities and outstanding balances with central government bodies. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

As at the date of the Statement of financial position, the Company has only the following financial liability:

Other financial liabilities included as current liabilities comprise 'trade payables' in the Statement of financial position.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Recognition and measurement

Financial liabilities are recognised when the Company becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the Statement of financial position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Other financial liabilities are recognised at fair value through the Statement of comprehensive income.

Provisions

Provisions are recognised when:

- There is a present legal or constructive obligation as a result of past events
- It is more likely than not that an outflow of resources will be required to settle the obligation; and
- The amount can be reliably estimated

Employee benefits

Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short term cash performance related award if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The cost of annual leave earned but not taken by employees at the date of the Statement of financial position is recognised in the financial statements to the extent that employees are permitted to carry forward leave to the following year.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Pension arrangements

The Company contributes to a defined benefit plan which targets a pension paid throughout life plus an additional cash sum at retirement. The amount of pension and additional cash depends on how long employees are active members of the Scheme and their average salary when they leave the Scheme.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The liability discount rate is the yield at the Statement of financial position date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements. Actuarial gains and losses that arise are recognised by the Company in the period they occur through the Statement of comprehensive income.

The Scheme is legally separated from the Company and is governed by a Board of Trustees that has control over

its operation, funding and investment strategy. The Board of Trustees is chaired by an Independent Trustee and is comprised of nominees of the Company and elected Scheme members.

The defined benefit scheme exposes the Company to actuarial risks such as longevity risks, interest rate risk and market (investment) risk.

The Board of Trustees regularly reviews the Scheme's investment strategy in order to manage the investment risks within the Scheme. In consultation with the Company, a revised investment strategy is being implemented in order to reduce the investment risk and the volatility of the Scheme's funding position while still targeting paying off the Scheme's funding shortfall within the agreed recovery period. The Scheme invests in a broad range of asset classes with a target allocation under the new strategy of 60% in matching assets and 40% in growth assets.

UK legislation requires the Board of Trustees to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent valuation was carried out as at 5 November 2013 and a recovery plan was put in place to remove the Scheme's shortfall against the Trustees' funding objective.

The Company additionally contributes to a defined contribution scheme to meet its statutory obligations under the Pension Reform to enrol all staff in a pension scheme. Contributions are recognised in the Statement of comprehensive income as they are incurred. The Company has no further liability once contributions are paid to the pension scheme.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Other obligations

Termination benefits are payable when employment is terminated before the normal retirement date, date implied in contractual terms and conditions, or when an employee accepts voluntary redundancy for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Leases - Finance

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the present value of the minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are depreciated over the shorter of the asset's useful life and the lease term. Each lease payment is allocated between the principal capital component and finance charges. The finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Interest on finance leases is charged to the Statement of comprehensive income in the period to which the lease payment relates.

Leases - Operating

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rental payments under operating leases are charged to the Statement of comprehensive income in the period to which they relate.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting as provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Directors review performance based on three segments: operating budget, project budget and other. The operating budget represents day to day operating activities undertaken by the Company. The project budget represents additional activities undertaken by the Company in the financial year to enhance the day to day activities. On completion, these activities will become part of the operating budget in subsequent years. Other consists of additional services that the company provides to Higher Education Institutes and other stakeholders.

Analysis of the revenue and expenditure by segment are deemed according to the activity based model utilised by the Company. This model allocates revenue and expenditure to products provided by the Company to the Department for Business, Innovation and Skills (England), the Department for Education and Skills in the Welsh Assembly, the Student Awards Agency for Scotland and the Department of Employment and Learning in Northern Ireland.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

2 Segmental reporting

Segmental information can be analysed as follows for the reporting periods under review:

2015	Operating budget £000	Project budget £000	Other £000	Total £000
Segmental revenue				
Grant in aid*	110,804	22,114	59	132,977
Administration fees received from third parties	253	-	1,065	1,318
Other income	105	-	-	105
Total revenue	111,162	22,114	1,124	134,400
Segmental expenditure				
England HE	(95,990)	(13,276)	(1,011)	(110,277)
England FE	(2,990)	(1,198)	-	(4,188)
Northern Ireland	(2,139)	(1,424)	(36)	(3,599)
Scotland	(2,426)	(1,002)	(7)	(3,435)
Wales	(7,089)	(5,179)	(70)	(12,338)
Total expenditure	(110,634)	(22,079)	(1,124)	(133,837)
Operating profit				<u>563</u>

Segmental information after operating profit before interest and tax has not been provided on the basis that these costs are determined at corporate level and are not separately reportable to management.

An analysis of segmental assets has not been provided as this is not a measure which is reported to management, on the basis that any allocation would be purely artificial and would not add value.

* All Grant in aid funding has been received from England, the main funding body, who subsequently reclaim the costs from Northern Ireland, Scotland and Wales.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

2 Segmental reporting (continued)

2014	Operating budget £000	Project budget £000	Other £000	Total £000
Segmental revenue				
Grant in aid*	105,354	23,195	66	128,615
Administration fees received from third parties	1,025	518	1,152	2,695
Other income	52	-	-	52
Total revenue	106,431	23,713	1,218	131,362
Segmental expenditure				
England HE	(94,901)	(12,243)	(1,129)	(108,273)
England FE	(2,403)	(3,812)	-	(6,215)
Northern Ireland	(2,349)	(649)	(25)	(3,023)
Scotland	(2,771)	(472)	(4)	(3,247)
Wales	(3,880)	(6,228)	(38)	(10,146)
Total expenditure	(106,304)	(23,404)	(1,196)	(130,904)
Operating profit				<u>458</u>

Segmental information after operating profit before interest and tax has not been provided on the basis that these costs are determined at corporate level and are not separately reportable to management.

An analysis of segmental assets has not been provided as this is not a measure which is reported to management, on the basis that any allocation would be purely artificial and would not add value.

* All Grant in aid funding has been received from England, the main funding body, who subsequently reclaim the costs from Northern Ireland, Scotland and Wales.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

3 Revenue

	2015 £000	2014 £000
Grant in aid	132,977	128,615
Administration fees receivable from third parties	1,318	2,695
Other income	105	52
	<u>134,400</u>	<u>131,362</u>

In accordance with the FReM, non-departmental public bodies are required to provide additional analysis on the services for which a fee is charged. Details of the bursary and scholarship schemes that the Company operates are detailed below:

Bursary and scholarship schemes

The company supports Higher Education Institutes (HEIs) in England, Northern Ireland, Scotland and Wales, in providing mandatory and discretionary bursaries and scholarships to students by providing an administration service. HEIs may choose to subscribe into either a full service which includes payment of the bursary or scholarship to the student or subscribe to the core service for information only purposes.

Financial objective

The main aim set by the funding bodies is to at least break even on both the core and full services offered as part of the bursary schemes. Any net surplus will be reinvested to ensure continued systems enhancement to improve efficiencies in the end to end process. Any net deficit will be fully funded in the next financial year.

	2015 £000	2014 £000
Revenue	1,147	1,253
Expenditure	(1,147)	(1,253)
	<u>-</u>	<u>-</u>
Surplus before tax	<u>-</u>	<u>-</u>

The inclusion of the analysis of income and expenditure relating to services for which a fee is charged is provided to ensure compliance with the FReM, and not to comply with IAS 8.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

4 Net expenditure before interest and tax

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

	2015 £000	2014 £000
Dilapidations provision	398	388
Depreciation and amortisation – owned assets	6,147	3,888
(Gain)/Loss on disposal of fixed assets	(10)	5
Amortisation of deferred capital receipts	(6,085)	(3,826)
Directors' remuneration	340	342
Auditors' remuneration:		
- Audit of these financial statements	39	39
Amounts received by auditors and their associates:		
- Valuation and actuarial services	61	10
- Other services relating to taxation	3	3
- Other assurance services	59	-
Operating lease rentals:		
- Land and buildings	3,411	3,255
- Computer and other equipment	854	1,159

Additional services to support the review of the defined benefit obligation of the Company were carried out by the Company's Auditors and accounts for the increase to the valuation and actuarial services.

Other assurance services provided by the Auditors included support to the Repayment division of the Company.

(b) Directors' remuneration:

	2015 £000	2014 £000
Fees	89	115
Executive emoluments (including benefits in kind)	201	188
Pension contributions	33	24
Taxable expenses	17	15
	<u>340</u>	<u>342</u>

The remuneration of each individual director is analysed in the remuneration report.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

5 Staff numbers and costs.

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

	2015	2014
Full time equivalent employees	2,554	2,367

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

The aggregate payroll costs were as follows:

	2015 £000	2014 £000
Wages and salaries	58,551	55,820
Social security costs	3,787	3,891
Pension service costs	4,682	4,598
	67,020	64,309
Other staff costs	6,501	7,759
	73,521	72,068

	2015 £000	2014 £000
Restructuring costs	1,832	999
	1,832	999

Pension service costs includes £125,000 (2014: £47,000) for a defined contribution plan to meet the companies auto-enrolment responsibilities.

Other staff costs represent the additional cost to the company for contractors and other indirect staff costs.

Restructuring costs represent the severance payments made in year and the provision for severance as set out in note 17.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Severance

The Company agreed and paid 31 (2014: nil) severance payments in the year. The relevant details are disclosed in the table below.

	Total number of severance payments	
	2015	2014
Cost band	No	No
< £10,000	1	-
£10,001 - £25,000	5	-
£25,001 - £50,000	15	-
£50,001 - £100,000	6	-
£100,001 - £150,000	3	-
£150,001 - £200,000	-	-
£200,001 - £250,000	1	-
	<hr/>	<hr/>
Total number of severance payments	31	-
	<hr/>	<hr/>
Total cost on a cash basis (£000)	<u>£1,587</u>	<u>£nil</u>

Note 1 to the financial statements details the Company's policy on termination benefits under the heading Employee benefits.

Severance costs have been approved and paid in accordance with guidance stipulated by the Department for Business, Innovation and Skills and HM Treasury.

6 Finance income

	2015 £000	2014 £000
Bank interest	27	20
	<hr/>	<hr/>
	27	20
	<hr/>	<hr/>

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

7 Finance costs

	2015 £000	2014 £000
Pension interest charge	603	560
Pension administration expenses	305	230
	<u>908</u>	<u>790</u>

8 Tax on result of ordinary activities

	2015 £000	2014 £000
Current taxation charge for the period at the small companies rate of 20% (2014: 20%)	5	1
	<u>5</u>	<u>1</u>

Tax is chargeable at 20% of the taxable profits arising on administration fees receivable from third parties, after charging the costs associated with the administration of that business, plus bank interest and corporation tax repayment interest.

The tax assessed for the period varies from the standard rate of corporation tax in the UK (20% in 2014 and 2015). The differences are explained below:

	2015 £000	2014 £000
(Loss) on ordinary activities before taxation	<u>(318)</u>	<u>(312)</u>
(Loss) on ordinary activities at small companies UK corporation tax rate	(64)	(62)
Effects of:		
Adjustment re prior year assessments	-	(3)
Amounts not subject to corporation tax	69	66
Current taxation charge for the period	<u>5</u>	<u>1</u>

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

9 Analysis of net expenditure by programme and administration budget

	Programme £000	Administration £000	2015 Total £000	Programme £000	Administration £000	2014 Total £000
Income:						
Grant in aid	77,613	55,364	132,977	79,883	48,732	128,615
Administration fees received from third parties	1,047	271	1,318	2,093	602	2,695
Finance income	22	5	27	14	6	20
Other income	83	22	105	38	14	52
Total income	78,765	55,662	134,427	82,028	49,354	131,382
Expenditure:						
Staff costs	(40,357)	(33,164)	(73,521)	(40,811)	(31,257)	(72,068)
Running costs	(36,801)	(18,800)	(55,601)	(38,246)	(15,721)	(53,967)
Operating lease rentals – land & buildings	(2,044)	(1,367)	(3,411)	(2,052)	(1,203)	(3,255)
Operating lease rentals – computer & other equipment	(850)	(4)	(854)	(1,159)	-	(1,159)
Interest charges	(908)	-	(908)	(790)	-	(790)
Non-cash items:						
Depreciation & amortisation – owned assets	(3,820)	(2,327)	(6,147)	(2,712)	(1,176)	(3,888)
Depreciation & amortisation – leased assets	-	-	-	-	-	-
Profit/(loss) on disposal of property, plant and equipment	10	-	10	(8)	3	(5)
Amortisation of deferred capital receipts	6,085	-	6,085	3,826	-	3,826
Dilapidations provision	(398)	-	(398)	(388)	-	(388)
Total expenditure	(79,083)	(55,662)	(134,745)	(82,340)	(49,354)	(131,694)
Net expenditure after interest	(318)	-	(318)	(312)	-	(312)

Programme income and expenditure refers to front line, customer facing activities undertaken by the Student Loans Company. Administration income and expenditure refers to the back office support facilities to these customer facing activities.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

10 Property, plant and equipment

	Short leasehold improvements	Computer and other electronic equipment	Furniture, fixtures and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2014	10,601	30,866	3,894	23	45,384
Additions	478	4,207	151	-	4,836
Disposals	(19)	(217)	(117)	-	(353)
At 31 March 2015	11,060	34,856	3,928	23	49,867
Depreciation					
At 1 April 2014	5,823	21,971	2,111	-	29,905
Charge for year	854	3,085	495	8	4,442
On disposals	(17)	(214)	(106)	-	(337)
At 31 March 2015	6,660	24,842	2,500	8	34,010
Net book value					
At 31 March 2014	4,778	8,895	1,783	23	15,479
At 31 March 2015	4,400	10,014	1,428	15	15,857

Included in computer and other electronic equipment are items held under finance leases with a net book value of £nil (2014: £nil), net of accumulated depreciation of £8,745,000 (2014: £8,750,000).

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

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

11 Intangible assets

	Intangible assets under development £000	Internally generated software £000	Websites £000	Software licences £000	Total £000
Cost					
At 1 April 2014	5,345	272	3,671	4,885	14,173
Additions	17,154	-	-	1,304	18,458
Transfers	(3,426)	3,426	-	-	-
Disposals	-	-	-	-	-
At 31 March 2015	19,073	3,698	3,671	6,189	32,631
Amortisation					
At 1 April 2014	-	23	1,764	784	2,571
Charge for year	-	293	381	1,031	1,705
On disposals	-	-	-	-	-
At 31 March 2015	-	316	2,145	1,815	4,276
Net book value					
As at 1 April 2014	5,345	249	1,907	4,101	11,602
As at 31 March 2015	19,073	3,382	1,526	4,374	28,355

Amortisation for intangible assets is recognised as a charge in the Statement of comprehensive income.

Assets under development represent the ongoing development of the Company's internal customer ledger and associated systems.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

12 Financial instruments

As the cash requirements of the Company are met through grant in aid provided by the Department for Business, Innovation and Skills, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Company's expected purchase and usage requirements and the Company is therefore exposed to little liquidity or market risk. Credit risk exists for trade and other receivables, which are detailed in note 13.

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposure to customers.

For banks and other institutions, only independently rated parties with a minimum rating of 'A' are accepted.

Credit risk is the risk of financial loss to the Company if a customer fails to meet their contractual obligations.

Other trade receivables comprise the sums due from third party portfolio administration and higher education institutions for the bursary administration service. 92% of other

trade receivables are not older than 3 months and do not represent any credit risk.

The Company's maximum exposure to credit risk as at 31 March 2015 is £2,104,000 (2014: £5,626,000).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by ensuring that enough funds are available to meet liabilities as they fall due. The Company's main source of income is grant in aid as specified above.

Analysis of when trade and other payables fall due is provided in note 15.

Market and currency risk

The Company does not borrow or invest funds. Financial assets and liabilities are generated by day to day activities and are not held to manage the risks facing the Company in undertaking its activities.

The financial statements are presented in 'Pound Sterling' (£), which is the Company's functional and presentation currency. The Company does not ordinarily enter into foreign currency transactions.

	2015 Book Value £000	2015 Fair Value £000	2014 Book Value £000	2014 Book Value £000
Trade receivables	6,591	6,591	10,914	10,914
Cash and cash equivalents	24,879	24,879	8,322	8,322
Trade payables due within 1 year	38,331	38,331	24,570	24,570
Trade payables due after 1 year	37,516	37,516	22,185	22,185

The carrying value approximates to the fair value due to the short maturity of the instruments.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

13 Trade and other receivables

	2015 £000	2015 £000	2014 £000	2014 £000
Customer administration charges - gross	-		167	
Allowance on customer administration charges	-		(167)	
Customer administration charges - net		-		-
Balances with central government bodies		-		3,699
Other trade receivables		1,978		1,666
Prepayments and accrued income		4,613		5,549
		<u>6,591</u>		<u>10,914</u>

14 Cash and cash equivalents

	2015 £000	2014 £000
Balance at 1 April	8,322	7,683
Net increase in cash and cash equivalents	16,557	639
Balance at 31 March	<u>24,879</u>	<u>8,322</u>
The balances at 31 March were held at:		
Commercial bank accounts	(187)	(858)
Government banking scheme accounts	25,064	9,176
Cash vouchers	2	4
	<u>24,879</u>	<u>8,322</u>

At 31 March 2015 £223,896,000 (2014: £29,763,000) was held in trust on behalf of third parties. The increase in balances held relate to a change in process for expected student payments in April 2015.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

15 Trade and other payables

	2015 £000	2014 £000
Amounts falling due within one year:		
Trade payables	1,354	3,500
Balances with central government bodies	7,759	-
VAT	5,780	2,575
Other taxation and social security	1,386	1,270
Accruals and deferred income	14,482	11,380
Deferred capital receipts	7,570	5,845
	<u>38,331</u>	<u>24,570</u>
Amounts falling due after more than one year:		
Accruals and deferred income	1,066	1,203
Deferred capital receipts	36,450	20,982
	<u>37,516</u>	<u>22,185</u>

16 Deferred capital receipts

	2015		2014	
	Intangible assets £000	Property, plant and equipment £000	Intangible assets £000	Property, plant and equipment £000
At 1 April	11,602	15,225	675	12,255
Receivable for the year	18,458	4,836	11,530	6,208
Credited to statement of comprehensive income	(1,705)	(4,396)	(603)	(3,238)
At 31 March	<u>28,355</u>	<u>15,665</u>	<u>11,602</u>	<u>15,225</u>

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

17 Provisions

	Severance £000	Legal Claims £000	Dilapidations £000	Total £000
At 1 April 2014	999	10	3,842	4,851
Arising in year	1,184	19	417	1,620
Amounts reversed unutilised	-	-	(19)	(19)
Amounts utilised	(999)	(10)	-	(1,009)
At 31 March 2015	<u>1,184</u>	<u>19</u>	<u>4,240</u>	<u>5,443</u>
Amounts falling due within one year	1,184	19	-	1,203
Amounts falling due after more than one year	-	-	4,240	4,240
	<u>1,184</u>	<u>19</u>	<u>4,240</u>	<u>5,443</u>

The provision for severance in the year to 31 March 2015 represents the estimated severance costs from organisational redesign arising in the year to 31 March 2016.

The provision for legal claims represents the estimated settlement cost to the Company for ongoing legal actions against the Company. The provision has been made on the basis of the best estimate, based on the value of the claims made and the circumstances surrounding the claims. The claims are still ongoing, although it is anticipated that they will be settled by 31 March 2016.

The provision for dilapidations represents the estimated settlement cost to the Company of the dilapidations clauses included in its property leases. These costs are expected to be incurred on the expected termination of the property leases (these may not be the lease expiry) as follows: £2,301,000 in December 2023, £432,000 in August 2019 and £1,507,000 in April 2018. The provision has been made on the basis of the best estimate using independent professional assessments.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

18 Retirement benefit obligation

The Company operates the Student Loans Company Limited Retirement & Death Benefits Scheme for all permanent staff which is a defined benefit scheme that provides benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company, being invested by the Trustees of the scheme.

In 2015 the Company increased the employer contribution from 15.6% to 27.1% after an agreement was made the Pension Trustees to address the current deficit of the scheme.

	2015 £000	2014 £000
Change in benefit obligation		
Benefit obligation at beginning of year	76,282	65,608
Service cost	4,676	4,557
Interest cost	3,490	3,073
Plan participants' contributions	1,396	1,438
Actuarial loss	18,714	2,281
Insurance premiums for risk benefits	(257)	(219)
Benefits paid	(824)	(456)
Benefit obligation at end of year	103,477	76,282

Change in plan assets

Fair value of plan assets at beginning of year	59,685	51,202
Interest Income	2,887	2,513
Employer contributions	12,217	3,759
Plan participants' contributions	1,396	1,438
Actuarial gain	5,578	1,678
Insurance premiums for risk benefits	(257)	(219)
Benefits paid	(824)	(456)
Administrative expenses	(305)	(230)
Fair value of plan assets at end of year	80,377	59,685

Amounts recognised in the Statement of financial position

Present value of funded obligations	103,477	76,282
Fair value of plan assets	80,377	59,685
Deficit for funded plans	23,100	16,597
Net liability	23,100	16,597

Amounts in the Statement of financial position

Liabilities	23,100	16,597
Assets	-	-
Net liability	23,100	16,597

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

	2015		2014	
	£000	£000	£000	£000
Components of pension expense				
Current service cost recognised within staff costs		4,676		4,557
Interest cost	3,490		3,073	
Interest (income) on plan assets	(2,887)		(2,513)	
Total net interest cost		603		560
Administrative expenses		305		230
Defined benefit cost included in Statement of comprehensive income		5,584		5,347
Remeasurements (recognised in other comprehensive income)				
Effect of changes in demographic assumptions	(1,425)		-	
Effect of changes in financial assumptions	24,434		2,382	
Effect of experience adjustments	(4,295)		(101)	
(Return) on plan assets (excl interest income)	(5,578)		(1,678)	
Actuarial loss immediately recognised		13,136		603
Total recognised in the Statement of comprehensive income		18,720		5,950
Defined benefit obligation				
Defined benefit obligation by participant status		£000		£000
Actives		70,490		53,357
Vested deferrals		25,402		17,869
Retirees		7,585		5,056
Total		103,477		76,282
Plan assets				
Amounts included in the fair value of asset for:		£000		£000
Equity instruments		29,544		23,858
Debt instruments		29,480		17,838
Cash and cash equivalents		856		569
Property		7,391		5,948
Diversified growth fund		13,106		11,472
Total		80,377		59,685

The fair value of plan assets with a quoted market price is as quoted above for fair value assets. There are no amounts invested in the Company's own financial instruments.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Weighted average assumptions used to determine benefit obligations at:

	2015	2014
Discount rate	3.40%	4.60%
Rate of compensation increase	3.00%	3.60%
Rate of increase of pensions in payment	3.00%	3.30%
Rate of price inflation (RPI)	3.00%	3.40%
Rate of price inflation (CPI)	2.00%	2.60%

Weighted average life expectancy for mortality tables used to determine benefit obligations at:

	2015	2014
Male member age 65 (current life expectancy)	22.1	22.3
Female member age 65 (current life expectancy)	23.8	23.7
Male member age 45 (life expectancy at age 65)	23.1	24.0
Female member age 45 (life expectancy at age 65)	25.8	25.6

Weighted average assumptions used to determine pension expense for year ended:

	2015	2014
Discount rate	4.60%	4.70%
Rate of compensation increase	3.60%	3.60%
Rate of increase of pensions in payment	3.30%	3.30%
Rate of price inflation (RPI)	3.40%	3.40%
Rate of price inflation (CPI)	2.60%	2.60%

Sensitivity analysis:

Statement of financial position

The funded status of the Scheme and the amounts recognised as a Company liability at 31 March 2015 are compared to the corresponding amounts with a 0.25% p.a. reduction in the discount rate, a 0.25% p.a. increase to the inflation rate (RPI) and an additional 1 year of assumed life expectancy as shown in the following table. Each change is shown independently with all other assumptions held constant.

	31 March 2015 (Preliminary)	31 March 2015 (Discount)	31 March 2015 (Inflation)	31 March 2015 (Life Expectancy)
Discount rate	3.40%	3.15%	3.40%	3.40%
Inflation (RPI)	3.00%	3.00%	3.25%	3.00%
Inflation (CPI)	2.00%	2.00%	2.25%	2.00%
	£000	£000	£000	£000
Benefit obligation	103,477	112,278	110,580	106,663
Fair value of plan assets	(80,377)	(80,377)	(80,377)	(80,377)
Net liability recognised	23,100	31,901	30,203	26,286

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

Statement of comprehensive income

The preliminary estimate of the pension expense for the financial year to 31 March 2016 is compared to the corresponding amounts with a 0.25% p.a. reduction in the discount rate, a 0.25% p.a. increase to the inflation rate (RPI) and an additional 1 year of assumed life expectancy is shown in the following table. Each change is shown independently with all other assumptions held constant.

	31 March 2016 (Preliminary) £000	31 March 2016 (Discount) £000	31 March 2016 (Inflation) £000	31 March 2016 (Life Expectancy) £000
Current service cost	6,371	7,076	7,092	6,585
Interest cost	3,507	3,526	3,748	3,615
Interest (income) on scheme assets	(2,853)	(2,643)	(2,853)	(2,853)
Administration expenses	314	314	314	314
Total	7,339	8,273	8,301	7,661

History of defined benefit obligations, assets and experience gains and losses

	Financial year ending in				
	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Defined benefit obligation	103,477	76,282	65,608	44,761	48,418
Fair value of plan assets	(80,377)	(59,685)	(51,202)	(40,656)	(35,119)
Deficit	23,100	16,597	14,406	4,105	13,299

Contributions

The Company expects to contribute £6,520,000 to its pension plan in the financial year ending 31 March 2016.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

19 Financial commitments

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

	Land and buildings		Other	
	2015	2014	2015	2014
Operating leases amounts falling due:	£000	£000	£000	£000
Within one year	3,664	1,906	37	473
In the second to fifth years inclusive	8,274	11,222	21	32
	<u>11,938</u>	<u>13,128</u>	<u>58</u>	<u>505</u>

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

The Company may renew operating leases for land and buildings, specifically for the premises in Glasgow and Darlington. Leases have been entered into where the term end date is December 2023 for Glasgow and April 2023 for Darlington, with break options in December 2018 and April 2018 respectively.

Contingent rent payable in the year ended 31 March 2015 totalled £nil (2014: £nil.) No contingent rent is payable on any future financial commitments as at 31 March 2015.

There are no restrictions imposed by any of the above financial commitments.

At 31 March 2015 the Company had placed contracts for the purchase of fixed assets totalling £264,055 (2014: £184,508) and intangible assets totalling £15,147,466 (2014: £18,792,692).

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

20 Called up share capital

	2015 £	2014 £
Authorised		
200 ordinary shares of 50p each	100	100
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
20 ordinary shares of 50p each	10	10
	<u> </u>	<u> </u>

21 Controlling parties

The Company is owned by the Secretary of State for Business, Innovation and Skills, the Minister for Education and Skills in Wales, the Scottish Ministers and the Minister for Employment and Learning in Northern Ireland.

07. DIRECTORS' REPORT AND FINANCIAL STATEMENTS

07.8 NOTES TO THE FINANCIAL STATEMENTS

22 Related party transactions

The 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 had various material transactions with the above departments. The grant in aid funding received is detailed in note 2.

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

During the year, the Non-executive members of the Board held positions with higher education institutions which the Company transacts with for student funding.

- The Chairman, Mr C Brodie, held the position of Chair of Council at the University of Sussex.
- Professor Dame G Breakwell held the position of Vice Chancellor at the University of Bath.
- Mr W Gallacher is a member of the Court of Edinburgh Napier University.

23 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 Business, Innovation and Skills (England), the Department for Education and Skills in the Welsh Assembly, the Student Awards Agency for Scotland and the Department for Employment and Learning in Northern Ireland.

As at 31 March 2015 the total balance of the loan portfolio administered by the Company on behalf of the funding bodies was £73,847,704,000 (2014: £62,299,684,000); which excludes all non repayable student support.

08.

INDEPENDENT ASSESSORS' ANNUAL REPORT 2014-15

The Independent Assessors are appointed by the Secretary of State to deal with Higher Education Student Finance Appeals and Complaints. These appointments are made under s23 (6) of the Teaching and Higher Education Act 1998. The Independent Assessors provide the final, and independent stage, of SLC's complaints and appeals procedure. Six assessors were in appointment during FY 2014-15.

08. INDEPENDENT ASSESSORS' ANNUAL REPORT 2014-15

08.1 INTRODUCTION

On 6 May 2009, the Minister of State for Higher Education and Intellectual Property appointed 4 Independent Assessors for Higher Education Student Finance Appeals and Complaints. We were originally appointed for a three year term, but in 2012 we were offered a further three years, which we were pleased to accept. Two of the four original assessors will finish their final term at the end of April 2015. Two further temporary assessors were appointed to assist with a significant caseload from December 2014 and they will finish their term on 30th June 2015. New Independent Assessors will be appointed during the 2015-16 academic year and they will serve with two of the original assessors over the coming three year period.

Our appointments are statutory and are made under s23 (6) of the Teaching and Higher Education Act 1998. Complaints about loans transferred to the private sector may be referred to us if they do not fall within the remit of the Financial Ombudsman Service, as may complaints about loans made under the older mortgage style loan scheme. In 2014-15, our remit has been extended to complaints and appeals from Student Finance Wales.

Our decisions are binding on the Student Loans Company (SLC) unless it is directed otherwise by a Secretary of State – generally, but not restricted to, the Secretary of State for Business, Innovation and Skills. A protocol exists for appeals which ensures that the SLC supplies a summary of that appeal to the Department for Business, Innovation and Skills (BIS) when it is referred to us. This provides BIS officials with an opportunity to submit written comments if they consider that there are particular legal issues or policy guidance they would wish to bring to our attention. We

have received comments on 3 cases this year under this arrangement. BIS will also sometimes provide advice on its position on specific issues, and it has done so this year in respect of the wording of the regulations governing what constitutes “taxable income” for the purposes of calculating student support. In the event that BIS does not agree with our subsequent recommendations to the SLC, it advises the Secretary of State accordingly, who then decides whether or not those recommendations should be implemented. We routinely explain the provisional status of our recommendations to every appellant and complainant. In 2014-15 a number of cases were considered by BIS in some detail and it appears that one report may be over-ruled.

In our terms of reference we are required to bring independent decision making to bear on appeals and complaints cases referred to us by the SLC, and to uphold the principles of public life (the Nolan principles) in our work. As part of our accountability we are required to produce an annual report to Ministers and to the SLC Board summarising our activities during the year, and including recommendations on areas for improvement arising from our casework. This report covers the financial year 2014-15, and therefore relates to cases considered by us up to 31 March 2015.

We have continued to receive excellent support throughout the year from the SLC's Independent Assessors' Liaison Officer, and we would like to express our thanks to her for her invaluable input without which our work would have been considerably more challenging.

08. INDEPENDENT ASSESSORS' ANNUAL REPORT 2014-15

08.2 CASELOAD

The SLC defines an appeal as:

'a formal request to Student Finance (England) asking us to review our decision either on whether you are entitled to financial help or on the amount of funding we have awarded to you.'

A complaint is defined as:

'an expression of dissatisfaction, however made to an organisation, related to its products or the complaints-handling process itself, where a response or resolution is explicitly or implicitly expected.'

During the year we have reviewed 54 appeals and 103 complaints. A comparison with the preceding years may be seen in the table below:

Appeals	SLC Decision Upheld	Appeal Upheld	Total
2014-15	48	6	54
2013-14	38	9	47
2012-13	58	6	65 (including 1 referred back to the SLC)
2011-12	39	10	49
2010-11	34	25	59

Complaints

2014-15	103
2013-14	119
2012-13	92
2011-12	51
2010-11	14

08. INDEPENDENT ASSESSORS' ANNUAL REPORT 2014-15

Turning firstly to the appeals: the number of appeals has risen slightly in 2014-15. This year, we have only disagreed with the decision of the SLC in 6 cases.

Appeals

The table below sets out the broad categories of appeal with comparable figures for previous years where available:

Subject matter	2012-13	2013-14	2014-15
Unfitted	19	13	7
Previous study/ ELQ	11	10	9
Residency	8	10	13
Overpayment/Repayment	8	1	1
Funding entitlement	5	6	12
Migrant Worker	4	2	3
Other	10	5	9
Total	65	47	54

It is apparent that most of these categories have remained relatively stable. However, it is pleasing to see a significant decrease in the number of escalated appeals in relation to "unfitted" cases. These cases usually relate to students whom it is alleged have obtained more funding than they are entitled to, often by over-estimating the child care costs they expect to pay and then submitting unreliable documentation to support the claim. We have made a number of recommendations to the SLC over the past two years in respect of its handling of these cases. It is clear that the work that the SLC has done in strengthening of the unit responsible for investigating this area and improving its communication with students at an early stage of the investigation has been very successful.

This year also saw a sharp increase in escalated appeals relating to funding entitlement (2013-14 – 6 appeals; 2014-15 – 12 appeals). The increase was due to two separate issues. Firstly, there were a series of appeals relating to Channel Islands students who had been incorrectly awarded funding by the SLC due to a systems error. The error was subsequently identified and the funding was withdrawn, at which point the students appealed against the decision. All of these appeals were ultimately unsuccessful, as in our view the regulations are very clear in stating that these students were not entitled to any form of funding from the SLC.

08. INDEPENDENT ASSESSORS' ANNUAL REPORT 2014-15

Secondly, there were a number of cases involving appeals against the SLC's decision to discount items of expenditure which HMRC allows individuals to use to reduce their "taxable income" figure. This is the figure used by the SLC to calculate a student's entitlement to student support. Although in our view the regulations permit the SLC to do this, we felt that the regulations were not clearly worded and recommended that the wording was reviewed. During the year BIS reviewed and amended the wording, and gave us guidance on their position in respect of the non-allowable deductions. We accept that the wording has been changed but in our view more could be done to make this clearer, both in the regulations and in public information on the SLC's website and publications: we anticipate more cases for 2015-16.

Although residency appeals have risen slightly, we can identify no single reason for this. More students are attempting to claim dual residency in an attempt to circumnavigate the three year residency requirement in the UK before the commencement of the academic course. In our view, the SLC's approach to these cases is careful and thorough and invariably correct.

Lastly, previous study continues to cause difficulties for some students. Although the regulations are clear on what constitutes previous study, it is often quite difficult for students to understand properly, and some of the telephone advice given in respect of

previous study is also confused. Again, greater clarity on published materials, including more worked examples, might help students.

In addition this year the SLC amended the question relating to equivalent level qualifications ("ELQ"), allowing students to select from a drop down list of qualifications rather than setting a question requiring a yes/no answer. We have been recommending this for many years and we are pleased that the SLC has taken this step. We are confident that this is clearer for students and hopeful that it will reduce the number of appeals in this area.

Complaints

Complaints referred to Assessors show a fall, which may indicate that more complaints were resolved by the SLC at an earlier stage. Unfortunately during the year due to the availability of Independent Assessors a backlog in complaints cases developed. In an attempt to deal with this backlog quickly and efficiently two additional temporary Independent Assessors were appointed and they have worked exclusively on complaints. The SLC kept customers informed about the probable delay in referring their escalated complaints. In 2015-16 BIS will appoint further Independent Assessors bringing the total number to 8, which will hopefully address this issue.

08. INDEPENDENT ASSESSORS' ANNUAL REPORT 2014-15

Some complaints have a range of issues within them. In addition, there are occasions when as the complaint moves through the SLC's complaints process, the complainant becomes unhappy about the handling of the complaint itself which then becomes part of the complaint and this adds considerably to the complexity to be unravelled. A report in such cases will therefore review a number of issues and may make findings adverse to the SLC on all, some or none of the issues raised. For this reason it is difficult to say with any precision how many SLC complaints have been upheld, either in full or in part.

At the start of the process the original complaint is categorised:

Subject matter	2013-14	2014-15
Core processing	55	31
Grant overpayment	20	26
Call centre support staff	19	9
ICR	15	23
Other	10	14
Total	119	103

In practice, though, in our experience, complaints often contain a number of different themes, and the categories above are necessarily broad brush. We have also found that often what begins as a relatively minor complaint escalates into a major complaint because the original issue is not dealt with promptly or well.

In addition, although the number of complaints around call centre staff has decreased quite significantly, we have noticed a significant number of cases where incorrect telephone advice creates more problems for a customer, often leading to a complaint where, for example, a customer relies on an incorrect statement that s/he is eligible for funding when actually s/he is not. Sometimes this is compounded by an incorrect written notification of funding. These are particularly difficult cases for us. We cannot recommend that the SLC reinstates the promised funding because it would be ultra vires for the SLC to make payments to ineligible students. However, the financial impact on individual students may be really significant, and these cases have given rise to some of the largest compensation payments that we have recommended.

The sharp decrease in complaints around the SLC's core processing of applications is to be welcomed, and demonstrates that this aspect of the SLC's work has greatly improved over the past few years.

In our reports we make recommendations to address the specific circumstances of the case and also with respect to more general issues arising from our analysis. We meet regularly with SLC and BIS staff to consider the state of complaints and appeals, how our reports have been handled and are briefed on relevant administrative developments in the SLC and policy proposals from BIS. Our remit does not extend to policy proposals as such.

08. INDEPENDENT ASSESSORS' ANNUAL REPORT 2014-15

In 2013-14 in addition to the specific recommendations made in respect of individual cases, we made a number of general recommendations to the SLC. These related to the need to ensure that advice given by telephone advisors was accurate; the need to improve the explanations given to customers around the need to repay overpayments of grant, and the need to improve the timeliness of the SLC's response to complainants, including the time taken to refer complaints to Independent Assessors.

Although we have heard some very good and helpful advice by the SLC's telephone advisors, this year we have again seen and heard repeated instances of customers being given completely inaccurate advice. The SLC has introduced a recorded message to warn callers that they should not rely on telephone advice but only on written notification of their entitlement. This goes some way to flag up the dangers of relying on this verbal advice, which is often given on little (or inaccurate) information from the customer. The SLC has also introduced a knowledge database which advisors are encouraged to consult. Our concern however is that some do not do this, and offer the wrong advice with great confidence to the customer making an enquiry.

We are also concerned that we have seen a number of complaints cases, particularly (but not exclusively) those relating to overpayments of grant, where the SLC appears to be reluctant to provide the customer with a detailed numerical breakdown which shows clearly and simply how the final repayment figure was reached. In these

cases, we as Independent Assessors have had to try to work with SLC staff, greatly assisted by the Independent Assessor Liaison Officer, to explain the various elements comprising the balance. This has often not been an easy process, and we have reminded the SLC that it is entirely reasonable for a customer to want to understand exactly how a figure has been reached.

In relation to the issue of timeliness, there have still been delays in the SLC's handling of complaints and referral to the Independent Assessors.

We remain concerned about the extension of the complaints process outside the published stages, which often delay cases in reaching us. This year, we have noticed that rather than progressing straightforwardly through stages 1 and 2 of the SLC's complaints procedure, a number of cases appear to have also been subject to "repeat Stage 1" and "repeat Stage 2" procedures. Often even after a repeat Stage 2 procedure, the SLC will enter into further correspondence with a customer in an endeavour to avoid referral to an Independent Assessor. Although we entirely accept that the SLC can and indeed should do everything it can in order to resolve complaints at the earliest possible stage, we do not believe that repeating these stages of the published procedure benefits customers, as they understandably become confused about the status of their complaint. It also causes considerable delay in referring the complaint to an Independent Assessor, which may actually delay resolution of the complaint.

08. INDEPENDENT ASSESSORS' ANNUAL REPORT 2014-15

08.3 RECOMMENDATIONS

In summary, our recommendations this year are as follows:

- We recommend that the SLC reviews its published information on previous study and the definition of taxable income, to ensure that customers have as much clarity as possible before making an application.
- We recommend that the SLC continues to prioritise the accuracy of telephone advice given to customers, and identifies every possible means of ensuring that the advice given is accurate, and that telephone advisors make it clear, particularly in complex cases, that customers should not rely on the preliminary advice given, but should make an application. Telephone advisors should be warned against making assertions that a customer will definitely be entitled to funding.
- We recommend that the SLC reviews the additional stages which appear to be increasingly used in the complaints process, and that it avoids repeated responses at stages 1 and 2.
- We recommend that the SLC should routinely explain how an overpayment has arisen numerically as well as in a written explanation.

June Brown
Linda Ellery
Deborah Gibson
Christopher Hughes
Isabella Macritchie
Sarah Walk

Independent Assessors
April 2015



www.slc.co.uk

Student Loans Company Limited

100 Bothwell Street, Glasgow, G2 7JD Tel 0141 306 2000 Fax 0141 306 2005

VAT Reg No. 556 4352 32 Registered in England No. 2401034

Registered Office: 21 St. Thomas Street, Bristol, BS1 6JS