

Student Loans Company Limited

**Directors' report and financial
statements**

Registered number 2401034

31 March 2000



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Chairman's statement

The directors' report and company financial statements below cover the activities of the company for the year ended 31 March 2000.

In my statement last year, I referred to the year 1998-1999 as one of considerable activity and change for the company. This was no less true of the year 1999-2000. Nevertheless, the year has also been one of some success and achievement for the company.

A year ago, I referred to the extensive activity surrounding phase 1 of the Government's new student loan scheme. The new student support arrangements came fully into operation for the first time for the academic year 1999-2000, and considerable effort has been put into establishing smooth-running and efficient processes to ensure the effective delivery of new style loans to some 452,000 students who applied for them last year.

The company has worked closely with the Education Departments, the award making bodies and the higher education institutions to put in place the processes needed to ensure that loan cheques are available at the start of term to those students who have applied for them on time. Since the new style loans are paid in instalments, the early weeks of January also saw renewed activity inside the company to ensure that second payments made by BACS transfer reached students' bank accounts in good time for the new term. Considering the many novel features of the new arrangements, and the changes in responsibilities which accompany them, the company achieved commendable levels of performance in delivering the vast majority of loan cheques to universities and colleges in time for students to collect at the start of their courses. With the experience of the first year behind us, and with the help and support of the other agencies involved, the company intends to provide an even higher quality of service to those involved in the coming academic year. In particular, we have plans to respond more quickly and effectively to the very high volume of telephone enquiries made to the company's help-lines over the late summer and early autumn.

With the introduction of the new loan scheme, applications for the old mortgage style loans have declined rapidly in the past year. These loans are, however, still an important part of the business of the company, and will remain so for some years more as the scheme matures, and increasing numbers of accounts come into deferment or repayment. Last year, repayments were deferred under the student support regulations in respect of over half a million mortgage style accounts and another 268,000 accounts moved into repayment. This brings the total number of such accounts in repayment managed by the company to over 1.4 million. To date, borrowers have repaid some £794,195,000 of these loans, some 18.4% of the total sums made available under the mortgage style loans scheme.

The company's commitment to using modern technology to achieve maximum efficiency was demonstrated by the introduction, in February 2000, of the new Automated Collection Technology ('ACT') system to deal with the processing of loan repayments. This system, which provides the necessary capability to process the growing number and variety of accounts which the company now manages, replaced the Computer Assisted Collection System ('CACS') which had served the company for a number of years. It was introduced without any interruption to our day to day collection work and we eagerly anticipate significant improvements to this part of the company's business in the years ahead.

As the company is so dependent on information systems and technology for its business, ensuring those systems were robust against Year 2000 issues was a matter which received close attention last year. A great deal of work went into identifying potential problems and resolving them before the critical dates. While the company was confident that it had done everything required to ensure continuity of its business, I am glad to report that transition to the Year 2000 passed without any disruption whatsoever to our day to day operations.

The complexity of the company's business continues to grow as elements of the old and new schemes operate side by side; as hardship loans are processed; and as we assume responsibility for paying over the publicly funded element of tuition fees to the higher education institutions. The company is also managing the two private sector loan portfolios which were acquired by Finance for Higher Education Limited in 1998 and Honours Trustee Limited in 1999. As at 31 March 2000, the company administered some three and a quarter million loan accounts on behalf of the Government and the private sector owners, with a total value of some £5,946,936,000, a four-fold growth compared with five years ago. Handling this business in a continually changing environment is a challenge to the company's efficiency and adaptability, and the progress made over the past year reflects positively on staff throughout the company.

Chairman's statement *(continued)*

I mentioned last year that appointments had been made to fill vacancies for non-executive directors on the board. As a result, the company has been operating with a full Board for the first time for a significant period. This has allowed a full programme of meetings of the Audit and Remuneration Committees to take place. The non-executive directors have played an active role in the business of the company, and I should like to express my appreciation for the contribution they have made to what has been achieved.

Finally, I wish to record my thanks for all the hard work and support from management and staff throughout the company over the past busy year. Their continued commitment stands the company in good stead to meet the further challenges that lie ahead.



Anthony Battishill
Chairman

28 June 2000

Directors' report

The directors have pleasure in submitting their annual report and the financial statements of the company for the year ended 31 March 2000. The financial statements have been prepared in accordance with the Companies Act 1985, as augmented, where appropriate, in respect of additional information as directed by the Secretary of State for Education and Employment with the consent of the Treasury, as set out in the Accounts Direction reproduced in the appendix on pages 23 to 25.

Statutory background and history

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

Review of business and future developments

The bedding in of the new loans system continued through this year as the scheme operated at significant volumes for the first time. This presented a number of technical difficulties which were handled with a minimum disruption to students' arrangements. Continuing improvements are being made which involve development of technology and handling processes. Preparations for repayment of income contingent loans through the PAYE system from 1 April 2000 have been underway throughout the year. As the number of accounts entering repayment under the old loan scheme has increased substantially, new systems have been developed to improve the efficiency of collections activity.

The company made extensive efforts to ensure that core systems would not be adversely affected by year 2000 issues. As a result of this testing and preparation work, no interruptions to the company's business occurred as a result of any year 2000 date related issue. The total cost associated with this work was £1,767,000, which is less than the ceiling of £2 million indicated in last year's report.

The company is now working on the introduction of loans for part time students and is beginning to look at the options for delivering services over the internet. These developments are taking place alongside the company's continuing efforts to work with other bodies involved in student support arrangements to improve the efficiency of the scheme.

The company continued to administer both sold portfolios under contract to the private sector owners.

The changes which have occurred in the past year and which will follow in the year ahead have demanded a great deal of commitment from employees and the directors are pleased to acknowledge their contribution to a successful year.

Economic & Monetary Union

The company has in place a project board to keep abreast of any material developments in this matter. This group has maintained links with officials of the Department for Education and Employment in order to be prepared to provide the necessary contributions to the overall planning process in due course.

Directors' report *(continued)*

Dividends

The company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (1999: £Nil).

Directors and their interests

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

Sir Anthony Battishill GCB	Chairman	<i>Executive (part-time)</i>
Sir Eric Ash CBE		<i>Non-Executive</i> * ^
BG Booth		<i>Non-Executive</i> * ^
PH Grace		<i>Non-Executive</i> *
MD Paterson		<i>Non-Executive</i> ^
C Ward		<i>Chief Executive</i>
JB Morrison		<i>Finance Director</i>

* Member of the audit committee throughout the year.

^ Member of the remuneration committee throughout the year or, in the case of MD Paterson since 28 February 2000.

All non-executive directors are considered to be independent.

None of the directors had any interest in the shares of the company at 31 March 1999 or 31 March 2000. The company is wholly owned by the Secretary of State for Education and Employment and the Secretary of State for Scotland but this is under review following the transfer of responsibility for student support in Scotland to Scottish Ministers.

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

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

Fixed assets

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

Employees

It is the company's aim to keep employees informed about its affairs and in particular about those matters which affect them directly. To this end, newsletters and information memoranda are issued regularly to employees, and meetings of the Joint Staff Consultative Committee are held every second month.

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

Charitable donations

During the year the company made no charitable donations (1999: £Nil).

Directors' report *(continued)*

Creditor payment policy

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

The number of days billing from suppliers outstanding at 31 March 2000 was 22 (1999: 33).

Corporate Governance

As a matter of good practice the company, since 1995, has adopted published corporate governance guidelines and has reported accordingly in the annual directors' reports, despite the fact that the company is not a listed company to which these requirements were directed. However, with the publication of the Combined Code in 1998 there are a number of matters with which, due to its status as a NDPB, the company cannot comply. In accordance with guidance issued in the document "Internal Control: Guidance for Directors on the Combined Code" which was issued in September 1999 (the Turnbull Guidance), the Board is adopting a staged approach to adoption of the principles of the combined code. The Board has put in place a process which will allow it to report on internal financial controls at the present time and to allow full adoption of the principles of the Combined Code (where practicable) from April 2001.

In that context the following exceptions from the provisions of the Combined Code should be noted:

- all appointments at Board level are made by the shareholders; consequently there is no nominations committee;
- for the same reason, there is no provision for re-election of executive directors;
- there is no nominated senior independent non-executive director;
- remuneration of executive directors, with the exception of the Finance Director, is determined by the shareholders including arrangements relating to loss of office. The Financial Memorandum delegates the setting of the Finance Director's Remuneration to the Chief Executive. With effect from 30 June 1999, the Remuneration Committee has been charged by the Board with monitoring the pattern of executive directors' remuneration as a basis for advice to Ministers as appropriate;
- remuneration of non-executive directors and the part-time Executive Chairman is set by the shareholders.

Remuneration Committee

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

The duties of the Remuneration Committee are:

- to make recommendations to the Board on a suitable framework for performance-related pay;
- to make recommendations each year to the Board on the appropriate pay award for staff to be submitted for Ministerial consideration;
- to monitor the company's pay policy in relation to the market and make recommendations to the Board for any amendments;
- to monitor the application of market premia for specific roles within the company;
- to consider annually the general level of executive directors' remuneration having regard to the circumstances of the company; and to report their findings to the Chairman of the Board as a basis for advising Ministers as and when required;
- to develop an annual report to the Board summarising the Committee's activities during the year and the related significant results and findings.

Directors' report *(continued)*

Internal control

In the absence of formal guidance to directors and consistent with permission given by the Financial Services Authority to the boards of listed companies, the company has complied with code provision D. 2.1 on internal control by reporting only on internal financial control in accordance with guidance for directors on internal control and financial reporting issued in December 1994.

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

- regular meetings of the Board of Directors which has a schedule of matters which are specifically reserved for its approval and which are the subject of standard monthly reports as required;
- arrangements under a constitution for an Audit Committee of the Board to meet regularly and receive from management and internal and external auditors, inter alia, reports on the system of internal financial control, to provide reasonable assurance that control procedures are in place and are being followed;
- arrangements under a constitution for a Remuneration Committee of the Board;
- an organisational structure within the company with clear lines of responsibility;
- an Accounting Policies and Practices Manual, key changes to which are approved by the Board of Directors;
- an internal audit function working to Government Internal Audit Manual standards, with an annual internal audit plan and producing an annual internal audit report;
- a four year Corporate (Financial) Plan supporting strategic and operating plans, with a detailed annual budget, regularly revised forecasts, a comparison of actual income and expenditure with budgeted and forecast income and expenditure on a monthly and quarterly basis, operating cash flow and variance statements, and key performance indicators, all of which are reviewed by the Board.
- a comprehensive corporate diary designed to ensure that all key dates and deadlines are achieved with a monthly high level report, looking forward 12 months, being submitted to the Board.

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

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

The Accounting Policies and Procedures Manual which had been rendered out of date following major systems and procedural changes underwent a full-scale review during the year and has now been replaced with an up to date Accounting Policies and Practices Manual which has been approved by the Board. The new manual sets the policy framework approved by the Board. The executive management are required to operate accounting and purchasing procedures which operate within this framework. These procedures are now set out in a separate manual which is to be widely distributed in July 2000.

During the year the company carried out a review of financial management procedures in order to introduce a range of improvements to these procedures as from the start of the following financial year. A second phase of that review is on-going with a view to further improving the quality of financial information available to directors and management. This second phase will be completed during the financial year 2000-2001.

The directors have reviewed the effectiveness of the system of internal financial control in existence in the company for the year ended 31 March 2000.

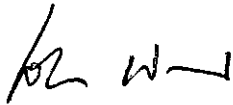
After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' report *(continued)*

Auditors

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

By order of the board



Colin Ward
Director and Accounting Officer

21 St. Thomas Street
Bristol
BS1 6JS

28 June 2000

Statement of chief executive's and directors' responsibilities

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

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

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

In addition, in appointing the chief executive as accounting officer for the company, the accounting officers in 1995 for the Department for Education and Employment, the Student Awards Agency for Scotland and the Department of Education for Northern Ireland, placed on the chief executive the responsibility for ensuring the regularity and propriety of the public finances, a requirement which is now set out in the management statement accompanying the company's financial memorandum.



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United Kingdom

Auditors' report to the members of Student Loans Company Limited

We have audited the financial statements on pages 10 to 22.

Respective responsibilities of the chief executive, directors and auditors

The company's chief executive and directors are responsible for preparing the annual report set out on pages 1 to 25 including, as described on page 8, the financial statements. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We also report our opinion to you on the regularity of the financial transactions included in the financial statements.

We review whether the statement on pages 5 and 6 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, had the company been subject to the listing rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2000 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985;
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

KPMG
Chartered Accountants
Registered Auditors

Registered number 2401034 / 31 March 2000

27 July 2000

Profit and loss account
for the year ended 31 March 2000

	<i>Note</i>	2000 £000	1999 £000
Turnover	3	37,417	26,951
Administrative expenses		(36,832)	(26,589)
		<hr/>	<hr/>
Operating surplus		585	362
Interest receivable	4	103	90
		<hr/>	<hr/>
Result of ordinary activities before taxation	5	688	452
Tax on result of ordinary activities	7	(688)	(452)
		<hr/>	<hr/>
Result for the financial year		<hr/> <hr/> -	<hr/> <hr/> -

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

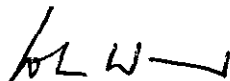
Statement of total recognised gains and losses

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

Balance sheet
at 31 March 2000

	Note	2000 £000	1999 £000
Fixed assets			
Tangible assets	8	7,064	3,228
Current assets			
Debtors	9	4,716	3,587
Cash at bank and in hand	10	40,233	12,292
		<u>44,949</u>	<u>15,879</u>
Creditors: amounts falling due within one year	11	<u>(44,949)</u>	<u>(15,879)</u>
Net current assets		-	-
Total assets less current liabilities		<u>7,064</u>	<u>3,228</u>
Accruals and deferred income			
Deferred capital receipts	12	(7,064)	(3,228)
		<u>-</u>	<u>-</u>
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account		-	-
		<u>-</u>	<u>-</u>
Total shareholders' funds - equity		<u>-</u>	<u>-</u>

These financial statements were approved by the board of directors on 28 June 2000 and were signed on its behalf by:



Colin Ward
Director and Accounting Officer

Cash flow statement

for the year ended 31 March 2000

	Note	2000 £000	1999 £000
Net cash inflow/(outflow) from operating activities	15	28,290	(48,074)
Returns on investments and servicing of finance			
Bank and other interest received		103	90
Taxation			
Corporation tax paid		(452)	(12)
Capital expenditure			
Payments to acquire tangible fixed assets		(4,944)	(139)
Receipts from sales of tangible fixed assets		12	36
Net cash outflow from capital expenditure		(4,932)	(103)
Net cash inflow/(outflow) before financing		23,009	(48,099)
Financing			
Capital funding received from the funding bodies		4,932	103
Increase/(decrease) in cash in the period		27,941	(47,996)
Net funds at 1 April		12,292	60,288
Net funds at 31 March		40,233	12,292

Notes

(forming part of the financial statements)

1 Statement of loans administered by the company

Funding for the purpose of making loans to students is received by the company from the Department for Education and Employment, the Student Awards Agency for Scotland and the Department of Higher and Further Education, Training and Employment (Northern Ireland), formerly the Department of Education for Northern Ireland, ('the funding bodies').

As at 31 March 2000, the total balance of the loan portfolio administered by the company on behalf of the funding bodies and the private sector owners was £5,946,936,000.

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

- (a) in accordance with the terms of the company's financial memorandum any interest earned on funds made available for making loans to students and on money repaid to the company by borrowers under the scheme shall be returned to the funding bodies; and
- (b) under section 32 of the financial memorandum, there is an agreement between the company and the funding bodies that the company is liable to transmit to these bodies only those repayments which are actually made to the company. As a consequence, the company is not liable for repayments due which ultimately may not be recovered.

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

A report on loans administered by the company will be contained in the 2000 Annual report of which these financial statements will form a part.

Notes (continued)

3 Turnover

Turnover is analysed as follows:

	2000 £000	1999 £000
Grant-in-aid receivable	28,934	22,765
Administration fees receivable from third party debt purchasers	8,483	4,186
	<u>37,417</u>	<u>26,951</u>

4 Interest receivable

	2000 £000	1999 £000
Bank interest	103	90

5 Result of ordinary activities before taxation

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

	2000 £000	1999 £000
Depreciation	1,007	1,176
Loss (Gain) on disposal of fixed assets	89	(34)
Amortisation of deferred capital receipts	(1,007)	(1,176)
Directors' remuneration (see below)	275	242
Auditors' remuneration, including expenses:		
Audit services	41	38
Taxation services	25	23
Services relating to debt sale	11	120
Other services	10	92
Operating lease rentals:		
Land and buildings	1,090	1,004
Computer equipment	1,509	977

(b) Directors' remuneration:

	2000 £000	1999 £000
Fees	24	25
Executive remuneration (including benefits in kind)	234	186
Compensation for loss of office	-	15
Pension contributions	17	16
	<u>275</u>	<u>242</u>

Notes (continued)

5 Result of ordinary activities before taxation (continued)

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

	Basic emolument		Pension contribution		Other benefits and expenses		Total		Contract terms	
	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000	Term	Notice period
Sir Anthony Battishill †*	59	26	-	-	16	5	75	31	3 yrs (3)	3 mths
Sir Ronald Norman**	-	12	-	-	-	17	-	29	N/A	N/A
Sir Eric Ash	9	9	-	-	-	-	9	9	2 yrs	-
BG Booth ⁽¹⁾	5	2	-	-	-	-	5	2	3 yrs	-
PH Grace ⁽²⁾	5	- α	-	-	-	-	5	-	3 yrs	-
MD Paterson ⁽²⁾	5	- α	-	-	-	-	5	-	3 yrs	-
C Ward (chief executive)*	84	84	9	9	7	6	100	99	3.5 yrs	6 mths
JB Morrison*	63	59	8	7	5	6	76	72	-	6 mths
	<u>230</u>	<u>192</u>	<u>17</u>	<u>16</u>	<u>28</u>	<u>34</u>	<u>275</u>	<u>242</u>		

† 1999 figures relate to the period from 9 November 1998 to 31 March 1999.

* Other benefits and expenses principally comprise motor car, medical insurance benefits or, in the case of the chairman, taxable travel and subsistence expenses.

** 1999 figures relate to the period from 1 April 1998 to 8 November 1998; other benefits and expenses include an amount of £15,000 relating to compensation for loss of office.

α Less than £1,000.

⁽¹⁾ 1999 figures relate to the period from 3 December 1998 to 31 March 1999.

⁽²⁾ 1999 figures relate to period from 15 March 1999 to 31 March 1999.

⁽³⁾ Subject to review after a period of two years.

The constituent elements of the chief executive's remuneration package are disclosed above. Under the terms of his contract the company is required to make pension contributions on behalf of the chief executive equivalent to 12% of his gross salary. He is not a member of the company scheme and has a personal pension plan to which the contributions are paid. As an ordinary member of the company's group life assurance scheme he is entitled to permanent health insurance and death in service benefits. He is provided with other benefits as noted above. Subject to the company giving him six months prior written notice, his three and a half year contract will terminate on 30 June 2002. Termination of the contract by the company prior to this date, other than in accordance with its terms, will result in compensation being paid to the chief executive for the unexpired period of the contract, subject to his duty to mitigate his loss.

Notes (continued)

6 Staff numbers and costs

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

	2000	1999
Number of employees	<u>525</u>	<u>389</u>

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

The aggregate payroll costs of these persons were as follows:

	2000 £000	1999 £000
Wages and salaries	8,799	6,294
Social security costs	655	496
Other pension costs	392	272
	<u>9,846</u>	<u>7,062</u>

7 Tax on result on ordinary activities

	2000 £000	1999 £000
Based on the result for the year at 30% (1999: 31%)	<u>688</u>	<u>452</u>

The corporation tax charge reflects the fact the company is in receipt of taxable income in respect of administration services provided to third party debt purchasers.

Notes (continued)

8 Tangible fixed assets

	Short leasehold improvements	Computer & other electronic equipment	Furniture, fixtures & fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	1,297	5,484	1,136	63	7,980
Additions	2,192	1,987	746	19	4,944
Disposals	(42)	(11)	(454)	(18)	(525)
At end of year	3,447	7,460	1,428	64	12,399
Depreciation					
At beginning of year	282	3,620	797	53	4,752
Charge for year	123	754	118	12	1,007
On disposals	(15)	(8)	(383)	(18)	(424)
At end of year	390	4,366	532	47	5,335
Net book value					
At 31 March 2000	3,057	3,094	896	17	7,064
At 31 March 1999	1,015	1,864	339	10	3,228

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

9 Debtors

	2000 £000	1999 £000
Management fees receivable	2,617	2,059
Other debtors	47	17
Prepayments and accrued income	1,327	1,145
Administration fees due from third parties	725	366
	4,716	3,587

Notes (continued)

10 Cash at bank and in hand

	2000 £000	1999 £000
Cash held in:		
Commercial bank accounts	363	1,065
HM Paymaster General Office accounts	39,869	11,226
Cash in hand	1	1
	<hr/> 40,233 <hr/>	<hr/> 12,292 <hr/>

11 Creditors: amounts falling due within one year

	2000 £000	1999 £000
Loan funding received from the funding bodies not yet issued as student loans	39,885	12,123
Trade creditors	1,731	1,326
Corporation tax	688	452
Other taxation and social security	1,378	996
Accruals and deferred income	1,267	982
	<hr/> 44,949 <hr/>	<hr/> 15,879 <hr/>

12 Deferred capital receipts

	2000 £000	1999 £000
At 1 April	3,228	4,267
Receivable for the year	4,843	137
Credited to profit and loss account	(1,007)	(1,176)
	<hr/> 7,064 <hr/>	<hr/> 3,228 <hr/>
At 31 March	7,064	3,228

Notes (continued)

13 Called up equity share capital

	2000 £	1999 £
<i>Authorised</i>		
100 ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
10 ordinary shares of £1 each	10	10

14 Movement in shareholders' funds

As the opening and closing reserves are £Nil and there have been no share issues during the year there has been no movement in shareholders' funds during the year (1999: no movements).

15 Cash flows

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

	2000 £000	1999 £000
Operating surplus	585	362
Depreciation	1,007	1,176
Amortisation of deferred capital receipts	(1,007)	(1,176)
	585	362
Increase in debtors, excluding interest receivable	(1,129)	(2,192)
Increase in creditors	1,072	1,458
	528	(372)
Net cash inflow/(outflow) from administration activities	(1,608,277)	(949,079)
Loans provided to students less repayments in the year	1,636,039	901,377
Loan funding received from the funding bodies less repayments in the year	28,290	(48,074)
Net cash inflow/(outflow) from operating activities	28,290	(48,074)

Notes (continued)

16 Financial commitments

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

	Land and buildings		Other	
	2000	1999	2000	1999
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	-	-	251	332
In the second to fifth years inclusive	164	164	1,307	1,526
In over five years	1,023	922	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,187	1,086	1,558	1,858
	<hr/>	<hr/>	<hr/>	<hr/>

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

At 31 March 2000 the company had contracts for the supply of computer and facilities management services in respect of its loan administration system. Under the terms of the contracts the company has commitments of £709,000 (1999: £1,044,000), all of which (1999: £672,000) is in respect of the year to 31 March 2001.

In addition, the company had other contracts in place for operational commitments totalling £396,000 (1999: £Nil).

At 31 March 2000 the company had placed contracts for the purchase of fixed assets totalling £168,000 (1999: £Nil).

17 Contingent liability

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

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

Notes (continued)

18 Pensions

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

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

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

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

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

The actuarial valuation at 6 November 1999 is in the process of being finalised by the scheme actuary.

During the year under review, the pensions charge in the profit and loss account of £358,000 (1999: £256,000) was equivalent to the contributions due to the scheme between 1 April 1999 and 31 March 2000. In addition the company made pension contributions of £17,000 (1999: £16,000) to the personal pension plans of executive directors of the company.

19 Controlling parties

Prior to devolution, as the controlling parties of the company, the Secretary of State for Education and Employment owned 50% of the share capital of the company and the Secretary of State for Scotland owned 50% of the share capital. Part of the share capital will transfer to Scottish Ministers.

20 Related party transactions

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

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

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

21 Notional cost of capital

In accordance with the 'Executive NDPBs: Annual Reports and Accounts Guidance' the company is required to disclose the notional cost of capital. In the year ended 31 March 2000 the cost of such capital (calculated at 8%) was £412,000.

Appendix: Accounts direction

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

- 1 The Student Loans Company Limited shall prepare accounts for the financial year ended 31 March 1998 and subsequent financial years comprising:
 - a. a directors' report including NDPB foreword requirements;
 - b. an income and expenditure account;
 - c. a balance sheet;
 - d. a cash flow statement;
 - e. a statement of total recognised gains and losses.including such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 The accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with:
 - a. generally accepted accounting practice in the United Kingdom;
 - b. the disclosure and accounting requirements contained in 'The Fees and Charges Guide' issued by HM Treasury (in particular those relating to the need for appropriate segmental information for services or forms of service provided) and in other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - c. the accounting and disclosure requirements given in 'Government Accounting' and in 'Executive NDPBs: Annual Reports and Accounts Guidance', as amended or augmented from time to time;insofar as these are appropriate to the Student Loans Company Limited and are in force for the financial year for which the statement of accounts is to be prepared.
- 4 Clarification of the application of the accounting and disclosure requirements of the Companies Act and Accounting Standards is given in schedule 1 attached. Additional disclosure requirements are set out in schedule 2 attached.
- 5 The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - a. fixed assets at their value to the business by reference to current costs;
 - b. stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value. Where stocks are of low value, in line with UK GAAP, they need not be revalued.
- 6 This direction shall be reproduced as an appendix to the accounts.
- 7 The Student Loans Company Limited must obtain approval from the Secretary of State, who may also refer the matter to the Treasury, for any departure from the provisions of this accounts direction, including those relevant provisions in the other documents to which it refers.

Schedule 1

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

Companies Act

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

Schedule 2

Additional disclosure requirements

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