APA Asset Protection Agency

an Executive Agency of HM Treasury

Annual Report and Accounts for the period from 1 April 2012 to 31 October 2012

of the Asset Protection Agency

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June 2013

Asset Protection Agency
Annual Report and Accounts for the period from 1 April 2012 to 31 October 2012

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Chief Executive's Foreword

Introduction

This is the fourth Annual Report and Accounts of the Asset Protection Agency (APA).

On 17 October 2012 Her Majesty's Treasury (HMT) and Royal Bank of Scotland Group (RBS) agreed that RBS would exit the Asset Protection Scheme (APS/the Scheme) on 18 October 2012. The Scheme provided support to RBS during and in the immediate aftermath of the financial crisis. However, as RBS has continued to stabilise and manage down non-performing assets, the APS no longer provided material benefit in strengthening RBS' financial position. Having reached the minimum fee of £2.5 billion and with no payout under the scheme deemed likely, the Government had agreed with RBS to allow its exit.

The previous Government launched the APA in December 2009 to manage the APS on behalf of HMT. Following RBS' exit from the APS, the APA had fulfilled its objectives and closed on 31 October 2012.

I set out below a summary of the Agency's activities in the current period and some reflections on the history and achievements of the Scheme and the Agency over the last three years.

Activities in 2012-13

In my foreword to the APA's 2011-12 Annual Report and in our Business Plan for 2012-13 I set out my intention to continue to focus on where we could add value to RBS, to reduce the level of activity of the Agency commensurate with the reduction in the level of risk in the Scheme and to support HMT and the Financial Services Authority (FSA) in their considerations over RBS' potential exit from the Scheme.

There have been two distinct phases in this last period of the Agency's existence.

In the first phase, the three months to 30 June 2012, our activities were similar to those of the previous year. Our Risk team completed the loss forecasts and APS financial instrument valuation using 31 March 2012 data that were published in the 2011-12 annual reports of the APA and HMT. Our Investment Management team continued to monitor RBS' management of the assets in the Scheme by reviewing individual large credit exposures and by reviewing RBS business divisions which manage significant numbers of Covered Assets, including assessing their strategies, operations and management capabilities.

In the second phase from 1 July 2012, as a result of the reduction in the level of risk in the Scheme and our confidence in our assessment of that level of risk, the APA chose to no longer be involved in review of asset level actions and the quarterly data reporting obligations on RBS were reduced from asset level to portfolio level data. These adjustments to the obligations on RBS enabled me to reduce the complement of the Risk and Investment Management teams to two, being myself and the Chief Investment Officer. From July 2012 onwards we monitored the level of risk in the Scheme by reviewing the 30 June 2012 portfolio data and by holding meetings with RBS management, including attending business monitoring meetings with Non-Core Division senior management and RBS' monthly Senior Oversight Committee (SOC) meetings, which are attended by a group of the most senior managers of RBS. We also prepared to close the Agency, which included transferring knowledge and records to our HM Treasury colleagues.

Chapter 2 provides an assessment of APA performance against the targets that were included in the Agency's 2012-13 Business Plan.

The Asset Protection Scheme (APS) and the Asset Protection Agency (APA)

The APS was designed to support the stability of the UK financial system, increase confidence and capacity to lend, and thus support the UK economy by protecting financial institutions participating in the Scheme against exceptional credit losses on certain portfolios of assets in exchange for a fee.

In the spring of 2009 two major British banking groups, Lloyds Banking Group (LBG) and RBS, signalled their intention to participate in the APS. In November 2009, amid milder economic conditions, LBG withdrew from the APS, leaving RBS as the sole participant.

The APS was designed, in effect, to isolate problem assets in a virtual "bad bank". The toxic assets were insured but stayed on the balance sheet of the bank, which continued to be the first line of management for the assets in question. The insurance cover acted as a substitute for equity capital as it was recognised by the FSA as regulatory capital for the purposes of capital adequacy assessments.

The Government set up the APA to work with RBS and oversee decisions made in relation to the management and oversight of the virtual bad bank. RBS set up what was in effect the board of the virtual bad bank called SOC, which was staffed by a group of the most senior managers of RBS and which APA senior management attended.

At the time that the Scheme was established the pool of insured assets were vulnerable to loss due to high leverage and significant refinancing risks.

We paid tribute in 2010 to the extremely challenging task the RBS senior management team had taken on in turning around the bank and returning it to viability. We acknowledged that it would be a multi-year journey with a massive amount of change required in many areas, including culture, systems, capability and financials. There were many aspects of how APS covered assets were managed, controlled, documented and processed that could be improved, and often improved significantly. We also recognised that these improvements could not happen overnight, which is why the APA was considered in exercising its formal powers and focused on establishing a multi-layered dialogue with RBS designed to flush out issues and seek ways to address them together. In addition, in some areas the APA required RBS to appoint external advisors in order to speed up resolution of problem areas and benefit from third party expertise.

The rally across asset classes from the latter half of 2009 onwards created opportunities to de-risk some APS portfolios through sales and hedges which were recognised by both RBS management and the

APA. The APA therefore consented to the overwhelming majority of RBS disposal requests and in some instances encouraged RBS to sell even more exposure of certain assets.

The APA sought to reduce risk and maximise value in the APS portfolio. By working closely with RBS senior management and asset managers on debt restructurings and sales of the largest APS assets we materially influenced RBS' analysis, strategy and management of many of these assets.

The investment management team also conducted reviews of RBS businesses. In some cases these reviews resulted in recommendations being made for changes in strategy, operations, reporting, controls or risk management and the APA worked with RBS to implement these changes. In particular, the APA successfully influenced RBS' strategy for commutation of certain large monoline exposures, collection and management of data for Non-Core commercial real estate, better coordination of management of Non-Core commercial real estate managed in the Global Restructuring Group (GRG), improved credit analysis and risk management in GRG and application of capital pricing models in Non-Core Division and GRG.

The nominal amount of taxpayer exposure in the Scheme reduced from £286 billion of Covered Amount at inception to £112 billion at 30 June 2012. The forecast Expected Loss outcome reduced from £60 billion to £38 billion. The main driver of reduced risk in the APS was that the fragile recovery of the global economy was reflected in a bottoming out of prices and values in most markets, strong continuing recoveries in the equity and corporate bond markets, stronger corporate profitability and deleveraging by consumer and corporate borrowers. These conditions facilitated an orderly disposal and run-down strategy that enabled the level of exposure in the APS to reduce at a manageable cost to RBS. While some markets such as Spain and Ireland continued to deteriorate, the macro-environment was favourable or neutral for the vast majority of our underlying exposures. The extremely low interest rate environment spared the realisation of larger losses than those that were incurred on the portfolio.

While RBS as a bank has also benefited from the economic environment as far as it pertains to the APS portfolio, two points are worth noting. First, (outside the rollover regime for certain sterling assets) where RBS extended the maturity of a loan to a borrower, the APS cover generally fell away at the time of the original maturity. Secondly, the APS was designed to guard for the risks as perceived by RBS and HMT in 2009, when assets were selected. Its parameters therefore excluded some asset groups such as all sovereign exposures where risk materially increased since the APS was established.

Our operating costs (which have been fully recharged to RBS) were significantly below budget in each financial year due to significantly lower spends on third party advisers and consultants. This did not result in the APA having significantly less benefit from third party advice and expertise than we intended when we planned for each year. Rather the bulk of the underspends were due to our deliberate policy of ensuring where possible that any requisite third party expertise was hired directly by RBS. We are pleased that RBS management supported this approach, which allowed them to benefit from knowledge transfer from the third party expertise as well. We also achieved cost savings by leveraging RBS processes, for example we used RBS' financial instrument valuation model and then had the Government Actuarial Department review our work on RBS' model. Another being that we influenced the scope of work performed by RBS' Group Internal Audit function on Scheme assets as part of our data quality assurance activities.

Throughout the life of the APA we have sought to operate the Scheme as efficiently as possible. We have sought to exercise our rights in a pragmatic manner. By adjusting the obligations on RBS we have enabled cost savings of many millions of pounds.

Conclusion

When we published our Business Plan for 2009-10 we laid out the following tests for judging whether the APS (and APA) had been successful:

1. The role the APS had played in restoring financial stability to the UK banking sector which supports the real economy without implicit or explicit government help.

2. The Government would have been remunerated for its risk in respect of the APS, RBS will have exited the Scheme successfully and any losses paid out would have been reimbursed by RBS on exit.

3. The APA would have played its part in reducing potential losses on APS covered assets and in protecting the public interest in the way it exercises its functions.

Taking the above points in turn:

1. The APS provided support to RBS during and in the immediate aftermath of the financial crisis which helped to maintain market confidence in RBS over that period.

2. The Government has received APS fees of £2.5 billion and other charges of £2.8 million plus interest payments from RBS and £2.5 billion from Lloyds. There have been no payouts under the APS. The Government has realised a £5 billion profit for the UK tax payer.

3. The APA agreed with RBS a significant number of individual asset actions which helped de-risk the portfolio and resulted in several hundred million pounds of increased cash recoveries from troubled assets. Also, the APA agreed with RBS a series of measures which significantly improved the management and control environment of difficult assets. Together with ongoing initiatives which the APA supported, these measures should stand RBS in good stead beyond its exit from the APS.

The positive outcomes summarised above result from establishing constructive relationships with RBS and HM Treasury senior management and the hard work and expertise of the APA staff and my predecessor, Stephan Wilcke.

Bill Dickinson
Accounting Officer (Chief Executive and Accounting Officer to 31 October 2012)
3 June 2013

1 Business Review

1.1 Investment Management

1.1.1 Functions

The Investment Management team fulfilled its responsibility for oversight and monitoring of Covered Assets in the first three months of the reporting period by:

- reviewing individual large credit exposures (i) presented to the APA and requiring a credit decision (credit reviews) and (ii) selected by the APA for review (asset reviews); and
- reviewing RBS business divisions which manage significant numbers of Covered Assets, including assessing their strategies, operations and management capabilities.

The Investment Management team comprised asset specialists focused on three broad asset classes to which all large Covered Assets have been allocated: corporate and leveraged finance, commercial real estate, and structured products.

In July 2012 the Investment Management team was disbanded. During the remainder of the reporting period the Chief Investment Officer and Chief Executive Officer monitored selected activities of RBS' Non Core Division and the Global Restructuring Group, assessing their strategies, operations and management capabilities.

1.1.2 Individual Assets

The focus for asset reviews in the three months to 30 June 2012 was the higher risk positions remaining in the Scheme. The team focused on ongoing participation and review of larger, high risk assets, which formed a "Focus List". Assets contained on the Focus List were prioritised based on frequency and intensity of monitoring with live restructurings or loan sales monitored on a weekly basis and less active situations reviewed on a less regular basis.

Over the first three months of the reporting period the Focus List was reduced from 259 borrower groups representing £47.7 billion of APS Covered Amount as at 31 March 2012 to 96 borrower groups representing £23.3 billion of APS Covered Amount prior to the Focus List being suspended on 29 June 2012.

1.1.3 General Asset Management

During the reporting period the APA continued its reviews of RBS businesses in several areas including Non-Core Division, Global Restructuring Group, commercial real estate and Ulster. These reviews provided the APA with the ability to assess whether Covered Assets were receiving the best possible management, including whether outsourced asset management would be appropriate.

1.2 Risk

The Risk team was responsible for monitoring and managing financial risks from the APS through:

- monitoring the evolution of incurred losses and portfolio credit quality;
- providing forecasts on loss evolution and stress testing adverse scenarios;
- providing an accounting valuation of the APS, the world's largest credit derivative contract;
- awarding Loss Credits where RBS disposes of assets before losses are formally incurred under the Conditions; and
- membership of the APA Credit Committee which makes asset-by-asset decisions on individual large credit exposures.

The Risk team produced an expected loss forecast and APS valuation based on 31 March 2012 portfolio data. The team was disbanded at the end of June 2012. Thereafter the Chief Investment Officer and Chief Executive Officer monitored risk in the Scheme using RBS management information and summary level portfolio data.

The APA had a range of risk policies and supporting processes in place to identify and manage its risk and to promote a strong culture of risk awareness throughout its operations. The risks associated with running the Scheme fell into two broad categories:

- Financial risks associated with HMT's potential liability under the Scheme; and
- Operational risks of running the Scheme and the APA.

This section focuses on the first category, i.e. the financial risks associated with HMT's potential liability under the APS. The second category is dealt with in the Governance Statement included in Chapter 4.

Over the course of the reporting period, the Risk team reduced the scale of its operations, consistent with the reduction of risk in the portfolio and the Chief Executive Officer assumed the responsibilities of the Chief Risk Officer.

1.2.1 Expected loss forecasts

As the level of risk in the Scheme had reduced so significantly, when the APA's Business Plan for 2012-13 was prepared a decision was taken that the expected loss forecast using the 31 March 2012 APS portfolio data would be the last independent expected loss forecast produced by the APA. Risk monitoring for the reporting period was carried out by reviewing management information prepared by RBS and a quarterly return submitted by RBS to the APA setting out the aggregation of RBS' risk metrics ('probability of default' and 'loss given default') for Covered Assets to monitor the trajectory of risk at the total portfolio level.

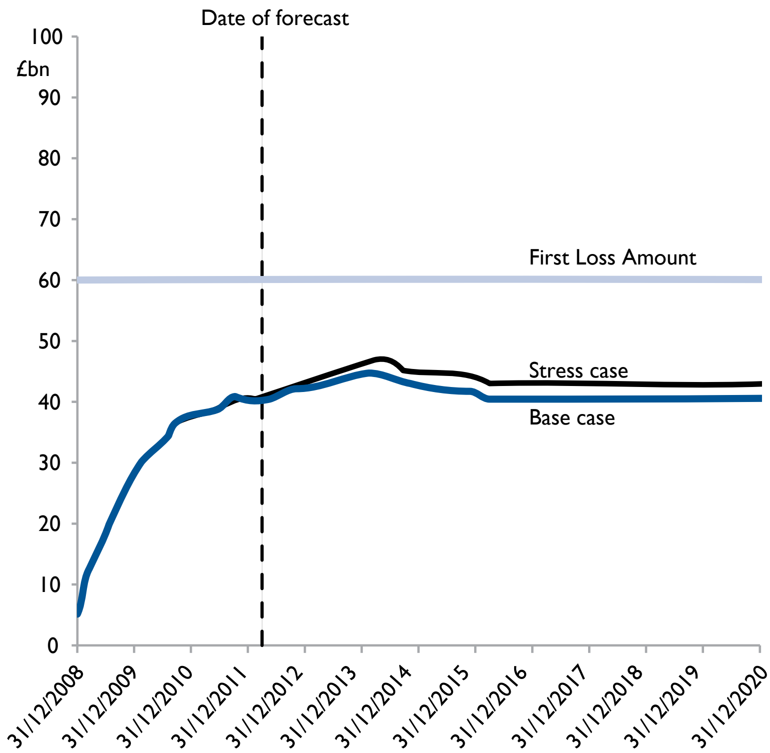
The APA's annual report for 2011-12 published the APA's base and stress case expected loss forecasts using the 31 March 2012 APS portfolio data. In summary, these were:

- At 31 March 2012, Triggered Amount (including Loss Credits) stood at £36 billion and Recoveries at £3 billion, meaning that 55 per cent of the first loss threshold of £60 billion had been utilised. The APA base case Expected Loss forecast based on 31 March 2012 portfolio data was £39 billion.

- In its stress case scenario, the APA predicted an Expected Loss on the APS portfolio of £42 billion, which is 7 per cent higher than in the base case scenario. (The stress case is broadly consistent with that set out in the FSA's Prudential Risk Outlook 2011, shifted to initiate the stress scenario in Q2 2012 and with some adaptation to fit the structure of the APA's forecasting model.)

Figure 1 below shows the projections of Net Loss (i.e. Triggered Amount minus Recoveries at any given point in time) for the base and stress cases based on portfolio data as at 31 March 2012. Under both the base and stress cases, Net Loss is not expected to exceed the £60 billion first loss amount.

Figure 1: Base and stress case net loss forecasts based on portfolio data at 31 March 2012



Source: APA analysis

HMT benefits from substantial over-collateralisation in the Scheme. The first layer of overcollateralization is provided by the first loss amount of £60 billion. The second layer is due to the fact that RBS is required to pay a £500 million annual fee to remain in the Scheme.[1] Only if losses are over approximately £73 billion will the value of the Scheme payments be greater than the fees, and so only at that level would RBS rationally stay in and an ultimate payout be made.

The degree of over-collateralisation can be measured as the expected value of performing assets and expected Recoveries (which equals Covered Amount minus Expected Loss) relative to the size of the effective second loss tranche[2] as shown below.

$$\text{Over-collateralisation in per cent} = \frac{\text{Covered Amount - Expected Loss}}{\text{Effective second loss tranche}} - 1$$

[1] If RBS exits the Scheme, any payment received by RBS must be paid back to HMT with interest.
[2] This is the amount by which the Covered Amount exceeds the £73 billion referred to in the text.

Since the Scheme's inception to 31 March 2012, the degree of overcollateralization has increased from 6 to 70 per cent.

1.2.2 Awarding of Loss Credits on disposal of assets

When RBS disposes of Non-Triggered Assets it is not entitled to compensation for any discount to par that it may incur as a result of the sale, as the Scheme covers only principal losses on Triggered Assets. To ensure RBS incentives to de-risk the APS portfolio are not reduced by the existence of the Scheme, a Loss Credit is generally awarded on the disposal of Non-Triggered Assets. The Loss Credit is based on the expectation of the Net Loss that would have been incurred on the asset had it remained within the Scheme.

Withdrawal of a Non-Triggered Asset reduces the total number of assets in the Scheme and thereby reduces the level of potential Losses covered by the Scheme. If no Loss Credits were awarded, RBS would extract less benefit from the Scheme as assets were removed, but its payments for being in the Scheme would remain unchanged; this could discourage RBS from selling assets covered by the Scheme. The award of a Loss Credit redresses the balance and ensures that RBS gains at least some of the benefit it would have had if it retained the asset within the Scheme while de-risking the Scheme and the bank overall.

As at 31 March 2012 the APA had awarded Loss Credits of £1.8 billion on £11 billion of Covered Assets. The Loss Credits included individual disposals as well as a number of portfolio disposals. From 1 January 2012 RBS expressed an intention to only request Loss Credits under exceptional circumstances, in line with the reduced chance of payout from the Scheme. No Loss Credits were requested during the reporting period.

1.2.3 Valuation of the APS

For the purposes of HMT's Annual Report and Accounts, the APS has been accounted for as a derivative. In accordance with IFRS, the APS has been marked-to-market, with the result reflecting movements in credit spreads, exchange rates, interest rates, and the quality of the underlying portfolio. Details on the valuation of the APS financial instrument at 31 March 2012 can be found in HMT's Annual Report and Accounts 2011-12.

In the period to 18 October 2012 HMT received APS fees from RBS of £150 million plus interest, taking the total APS fees received from RBS since inception of the Scheme to £2.5 billion plus interest. There were no payouts under the Scheme. As at 31 October 2012 HMT had earned a profit of £2.5 billion from RBS' participation in the Scheme.

1.3 Finance and Operations

The Finance and Operations team was responsible for the oversight of data reported under the Scheme, Scheme Ledger reporting, IT and other infrastructure, as well as the APA's HR and finance function.

Section 2.2 of this report contains management commentary for the APA's financial results for the period 1 April 2012 to 31 October 2012.

1.3.1 Data Management and Validation

The APA's approach to data management and reporting has changed significantly in the reporting period. In light of the significantly reduced likelihood of payout, the APA permitted RBS to replace the submission of asset level data with aggregate portfolio data from 30 June 2012 onwards. This has enabled the APA and RBS to achieve operating cost savings. The APA's data management and validation activities were suspended in June 2012 following the successful completion of the processing of the 31 March 2012 APS data.

1.3.2 Verification

Verification provides assurance over the data RBS submits to the APA and supplements the due diligence exercises carried out on assets prior to the formation of the APA.

In keeping with the APA's desire to place as much reliance as possible on RBS internal systems, the APA continued to influence the scope of work performed by RBS Group Internal Audit (GIA) who performed a number of audits of contractual reporting processes and limited substantive asset testing during the reporting period. Pricewaterhouse Coopers (PwC) performed an oversight role on behalf of the APA which included assessing the independence, competence and objectivity of GIA and carrying out re-performance of a selection of the tests performed by GIA. During the reporting period PwC completed an assessment of GIA on behalf of the APA in order for the APA to place reliance on GIA's work for the year to 31 March 2012. PwC's findings enabled the APA to continue to conclude that it was appropriate to place reliance on the work of the GIA function in relation to APS audits. The work of GIA was performed to a high standard, for example GIA applied stringent protocols and developed well thought out workflow processes in their performance of verification procedures.

During the reporting period the APA gained assurance and evidence over the quality of the data reported to the APA by RBS from a number of sources that included:

- reviewing RBS's internal APS Annual Assurance Plan
- attending the RBS Senior Oversight Committee
- analytical review procedures performed by the APA and RBS.

2 Performance and Results

2.1 Performance against targets

This section of the document provides an assessment of APA performance against the targets that were included in the Agency's 2012-13 Business Plan.

1 To apprise HMT of the level of risk residing in the Scheme through monitoring activities, including the analysis of RBS' quarterly APS data.

Achieved.

Expected loss forecasts (base, stress and reverse stress) using 31 March 2012 APS portfolio data were published in July 2012 in the APA's 2011-12 Annual Report.

Monthly reports were submitted to HMT setting out the results of the APA's risk monitoring activities, including analysis of the 30 June 2012 APS quarterly data and the business monitoring meetings held with RBS senior management.

2 To produce an auditable valuation of the APS as at 31 March 2012 that complies with International Financial Reporting Standards and is in line with appropriate accounting policies, in accordance with agreed timelines for inclusion in HMT's Annual Report and Accounts and Parliamentary Estimates.

Achieved.

Refer to HMT's Annual Report and Accounts 2011-12. As at 31 March 2012, the fair value of the APS was a £125 million asset on HMT's balance sheet. This was a mark-to-market profit to HMT of £2,475 million since inception.

3 To continue the APA's programme of verification of data reported by RBS to provide evidence to support losses claimed, loss forecasts and the valuation of the APS.

Achieved.

The APA gained assurance and evidence over the quality of the data reported to the APA by RBS from a number of sources, and was sufficient to provide comfort that the data used by the APA for the 31 March 2012 APS valuation and for risk monitoring purposes during the reporting period was fit for purpose.

4 To provide full and accurate reporting to HMT's APS Team and HMT Group Finance, within agreed timelines and taking account of Parliamentary reporting requirements and targets agreed with HMT.

Achieved.

In the reporting period, the APA met all of its reporting requirements to HMT.

5 To conduct APA operations in accordance with Government data handling, IT use and security policies.

Achieved.

The APA has complied with all Government policies relating to data handling, IT use and security in the reporting period.

6 To operate within budget and in line with HMT Group policies including on financial and commercial management.

The APA operated within its budget for the reporting period. The requirements of *Managing Public Money* have been complied with throughout the period.

7 In line with HMT Group policies to provide HMT with relevant information in a timely manner to enable HMT to meet operational, contractual and statutory deadlines when responding to Parliamentary Questions and Freedom of Information requests.

Achieved.

In the reporting period, the APA responded to all Parliamentary Questions and Freedom of Information requests within the required timeframes. All statutory and other deadlines in relation to the provision of requested information were met.

2.2 APA financial results

The APA's financial results for the period from 1 April 2012 to 31 October 2012 were £3.3 million of revenue and £3.3 million of costs, as costs incurred by the APA in managing and administering the APS are passed on to RBS under the terms of the Scheme.

The Parliamentary control totals were income of £5.6 million and Gross Administration Costs of £5.6 million.

Actual costs of £3.3 million were £1.5 million lower than the amount originally budgeted, in particular due to the reduction in staff headcount taking place earlier than had been anticipated and lower than budgeted verification and legal expenditures. The provision of £0.9 million, which was raised in the previous financial year of 2011-12, was fully utilised in the seven month period to 31 October 2012. The actual net operating costs of nil were the same as that budgeted.

At 31 October 2012, APA's statement of financial position showed a net asset position of £0.6 million, primarily reflecting the receivable from RBS for re-charge of the APA's costs. The APA's statement of financial position is a product of the relationship between the APA and HMT as its parent department. The APA is an executive agency operating at arm's length from ministers, but its funding is an allocation of the total voted by Parliament to HMT. The APA has no operating capital or cash of its own; its liabilities are paid by HMT. The cash funding thus provided by HMT to the APA does not equate to the net operating cost recorded by the APA on an accrual basis. As required by the Government Financial Reporting Manual, funding is recorded in the general fund within Taxpayers' Equity, along with net operating cost. The balance of Taxpayers' Equity can therefore be particularly affected by unpaid and accrued liabilities recognised as an expense by the APA but not yet funded by HMT and outstanding receivables. Following the APA's closure, all balances will be transferred to HMT.

The principal financial consequences of the decision to close the APA on 31 October 2012 were that administration costs of £13,000 are classified as losses in respect of contract terminations (see note 17) and that staff exit costs (see notes 3.1 and 3.4) were incurred. In respect of staff exit costs £865,000 was recognised in the income statement last year through the creation of the early departure costs provision, see note 11 to the accounts. The costs and expenses, to the extent that they were not covered by the provision, are incorporated in note 3.1. Further information pertaining to severance payments made to staff are disclosed in note 3.4. All staff exit costs were included in the re-charge to RBS.

The financial statements were prepared on the basis that the APA was not a going-concern as identified in note 1.3 to the accounts.

2.3 APA supplier payment policy

All the APA's supplier invoices are processed for payment by HMT, which is committed to the prompt payment of all invoices not in dispute. In May 2010, the government introduced a five day payment target for SME suppliers to receive payment which accelerated payment from the previous 10 day target set in November 2008.

In the period to 31 October 2012, HM Treasury Group achieved 85 per cent of all supplier payments within five days (against a target of 90 per cent).[3] The APA's trade creditor days for the period, calculated as the proportion that is the aggregate amount owed to trade creditors at 31 October 2012 compared with the aggregate amount invoiced by suppliers during the 7 month period, expressed as a number of days when compared with the seven month period of account, was 3.4 days (2011-12: 0 days for the one year period of account).

[3] http://www.hm-treasury.gov.uk/group_payment_performance.htm

2.4 APA sickness absence data

In the 12 months to 31 October 2012, there were 4.0 average working days lost per staff year within the APA (2011-12: 5.6 days). The proportion of staff at the APA who had no sickness absence was 64 per cent (2011-12: 64 per cent)[4].

Bill Dickinson
Accounting Officer (Chief Executive and Accounting Officer to 31 October 2012)
3 June 2013

[4] The APA was in the process of reducing staffing levels from April 2012. Significant and permanent reductions in headcount have the effect of distorting the calculation of these figures. To counter the extent of this distortion and meaningfulness of the current year figures when compared to comparatives from the preceding financial year, it has been necessary to utilise a 12 month period to provide comparable information.

3 Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HMT has directed the APA to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency, and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial period.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HMT, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis; and
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts.

An additional requirement of the Government Financial Reporting Manual is to prepare the accounts on a going concern basis; however, as the APA closed during the financial year 2012-13, the accounts for the seven months to 31 October have been prepared on a non-going concern basis.

HMT has appointed the Chief Executive as the Accounting Officer of the APA.

The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the APA's assets, are set out in Chapter 3 of *Managing Public Money* published by HMT.

4 Governance Statement

4.1 Scope of responsibility

As the Accounting Officer for the APA, I am responsible for maintaining a sound system of internal control that supports the achievement of APA policies, aims and objectives, whilst safeguarding the public funds and APA assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The APA is legally part of HMT; however, as an executive agency, it operates at arm's length from Ministers. Oversight of and approval for policy, strategic objectives and the financial framework of the APA are the responsibilities of the Chancellor of the Exchequer, which he has delegated to the Permanent Secretary of HMT. In my role as the Chief Executive and Accounting Officer of the APA, the Permanent Secretary has further delegated responsibility for the operational decisions and day-to-day management of the APA to me.

As Chief Executive and Accounting Officer of the APA, I am responsible for ensuring that the APA carries out its functions in accordance with the Framework Document, the APA's annual Business Plan and the Accounting Officer delegation letter from the Permanent Secretary. In addition to my responsibilities relating to the APA, I am responsible for monitoring the level of risk in the Asset Protection Scheme and providing a valuation of the Asset Protection Scheme to be incorporated into HMT's Resource Accounts, and also verifying any sums to be paid out by HMT as a result of the protection offered under the APS. These responsibilities are to be discharged in a way that will deliver value for money and in line with the terms and conditions of the APS.

The APA ceased operations on 31 October 2012. The following statement sets out the governance arrangements in place for the seven month reporting period to 31 October 2012.

4.2 Governance: Advisory Board, Committees, Leadership Team and internal audit

Advisory Board

Role and responsibilities of the Advisory Board

The APA established an Advisory Board (the "**Board**") to advise its Chief Executive and Accounting Officer on all strategic operational and management issues pertaining to the achievement of the APA's objectives and fulfilment of its responsibilities.

Size and Composition of the Advisory Board

Members of the Board were appointed by the Permanent Secretary of HMT, in line with applicable HMT and Cabinet Office guidance, acting on the recommendation of the Chief Executive of the APA. The Board consisted of:

- two independent directors, one of whom acts as Chairman;
- two senior representatives from HMT;
- the Chief Executive and Accounting Officer of the APA; and
- the APA's Leadership Team (see below).

The Board included at least one member who held professional qualifications from a recognised accounting body.

Operation of the Advisory Board

The Board usually met at least quarterly, or more often as required. Its meetings were chaired by the Chairman. The Board established Committees of the Board as it determined appropriate and details of the Committees that met during the reporting period are provided below.

The Board and its Committees self-assessed their effectiveness on an annual basis in accordance with their respective terms of reference. The most recent self-assessments were performed in the period March to June 2012. Results concluded that the activities of the Board and the Committees were fit for purpose having regard to their terms of reference and the APA's stated objectives.

The Board was advisory, had no statutory function, and worked with the Chief Executive and Accounting Officer to develop corporate policy, ensure good corporate and financial governance and monitor performance including an assessment of the APA's compliance with the Corporate Governance Code. Responsibility for all decisions taken by the APA remained with the Chief Executive and Accounting Officer of the APA.

Please see below two tables detailing the number of board meetings held during the reporting period and attendance by members:

Table 4.1: Attendance at APA Advisory Board Meetings

Board Member	18 June 2012	28 September 2012
Jack Caouette	✓	✓
Hamish Buckland	✓	✓
Mridul Hegde	✓	✗
Elizabeth Dymond (resigned 30 June 2012)	✓	n/a
Kumar Iyer (appointed 18 September 2012)	n/a	✓
Bill Dickinson	✓	✓
Ion Dagtoglou	✓	✓

Audit and Risk Committee

The Audit and Risk Committee's role was to advise the Chief Executive and Accounting Officer in relation to risk, control and governance by reviewing the effectiveness, reliability and integrity of the APA's risk assurance framework. The Audit and Risk Committee met at least quarterly, reporting its findings to the Board. The Audit and Risk Committee was chaired by a member of HMT's Group Audit and Risk Committee; other members included one of the HMT's representative members and one of the independent members of the Board. The National Audit Office, APA internal auditors and HMT internal auditors were all invited to attend Audit and Risk Committee meetings.

Table 4.2: Attendance at APA Audit and Risk Committee Meetings

Committee Member	18 June 2012	28 September 2012
Mike Ashley	✓	✓
Hamish Buckland	✓	✓
Elizabeth Dymond (resigned 30 June 2012)	✓	n/a
Kumar Iyer (appointed 18 September 2012)	n/a	✓

Remuneration Committee

The Remuneration Committee provided advice to the Chief Executive and Accounting Officer on remuneration arrangements and terms and conditions for the staff of the APA. The Remuneration Committee met once during the reporting period on 24 April 2012. The members were the Chief Executive and two independent members of the Board. The APA's HR manager provided secretarial support.

Internal Credit Committee

The Internal Credit Committee served as a consultative body to enable views and knowledge to be shared on both credit decisions required to be taken by the APA and ad hoc credit reviews. The Internal Credit Committee met on an ad hoc basis, usually weekly, as required in the first three months of the reporting period. Attendees included members of the Leadership Team and the Chief Credit Officer real estate on a standing basis. However, authority to approve or decline credit decisions rested with a hierarchy of authorised individuals as specified in the Procura Framework (see below).

The Internal Credit Committee was suspended on 30 June 2012 following the decision by the APA to release RBS, until further notice, from the APS requirement that RBS obtain the APA's permission to conduct certain actions on Covered Assets, referred to in the APS rules as the Prohibited Conduct regime.

Sanctions Committee

The Sanctions Committee comprised the Leadership Team, the Chief Credit Officer Real Estate and General Counsel and existed to support me in decision-making relating to any use of APS sanctions against RBS. The Sanctions Committee did not meet during the reporting period.

The Leadership Team

The primary body in the APA for identifying and mitigating risk on a day-to-day level was the Leadership Team, which comprised the Chief Executive and Accounting Officer and the heads of each division of the APA. The Leadership Team generally met weekly during the period to 30 June and thereafter on an ad hoc basis, supplemented by one to one meetings between the Chief Executive and Accounting Officer and his direct reports. At meetings the heads of each division were required to report on any new risks identified in the areas for which they had responsibility and on any changes in the status of existing risks.

Paul Doran, Chief Risk Officer, left the APA on 23 April. Since then Bill Dickinson combined the Chief Risk Officer role with his Chief Executive role, and as such, no replacement was sought.

Internal Audit

The APA appointed Ernst & Young to act as its internal auditors. The role of the internal auditors was to provide an independent review of risk management and control, to offer guidance to Management on effective risk management and control and to provide systematic, objective and disciplined approaches for evaluating the effectiveness of internal control, risk management and governance processes. The internal auditors carried out their work in accordance with the internal audit plan and regularly reported on their work to the Audit and Risk Committee.

In the reporting period the Internal Auditors completed their work for the year to 31 March 2012 and reported the results of their work in June 2012. The decision was taken by the Chief Executive and Accounting Officer, given the relatively simple and historically robust nature of the APA's internal controls and the diminishing level of risk in the Scheme, that no additional internal audit work would be commissioned for the current reporting period.

Risk assessment, risk profile and emerging risks

The APA monitored the level of risk associated with the operation of the Agency and the Scheme, which was documented in its risk register. The risk profile of the APA diminished significantly over the reporting period as a result in the continued reduction of the fiscal risk for HMT in the Scheme.

The key risks the APA faced during the period were:

- The uncertain life of the APS and the APA

The APA was a finite organisation with an uncertain lifespan based on RBS' continued participation in the Scheme. RBS had publicly stated that they wished to exit the APS in the fourth quarter of 2012, although it was not clear that RBS would exit the Scheme on 18 October 2012 until close to this date. Whilst RBS' continued financial recuperation remained the APA's priority, the APA managed the Scheme in a way that was proportionate to the level of the risk in the Scheme, including in respect of staff levels and the level of expense incurred with service providers.

As the closure of the Agency at some point during 2012-13 was a realistic possibility, the APA took steps, as set out in its Business Plan 2012-13 and reported on in the Chief Executive's Foreword and section 1 above, to ensure that the organisation was fully prepared for such an event.

- Data security

The APA handled confidential information relating to RBS, its customers and staff and also held confidential information relating to APA staff, to HMT and to other government bodies. The APA recognised the sensitive nature of the data they received and processed. Appropriate controls and safeguards in response to the data risks were put in place to ensure security and integrity of data was maintained at all times. The APA complied with Cabinet Office and HMT reporting requirements in relation to security and information assurance. The APA had no personal data related incidents over the reporting period which were required to be reported to the Information Commissioner's Office.

The risk and control framework

APA management gain assurance from a wide ranging suite of controls that collectively form the bedrock of the APA's operational framework.

The APA maintained a risk management framework to identify, mitigate and review the APA's strategic, reputational and operational risks. As noted above, it also maintained a risk register that was monitored and reviewed by the Board quarterly. The risk register highlighted and prioritised key risks and was used to monitor the effectiveness of the control environment and to strengthen controls where required. Underpinning the risk and control framework, the APA focused its efforts on identifying and mitigating risks in priority areas and took a proportionate, risk-based approach to its control framework. In particular the APA developed and maintained the following key control components:

1. In May 2012 the APA completed and submitted its Security Risk Management Overview 2011-12 to HMT. Policies were set out in Knowledge Management guidance documents available and distributed to all staff. Mandatory compliance training and a related annual compliance assessment (last performed in February 2012) were carried out for all APA staff to address Government Data Handling Review and information assurance requirements. Policies on anti-fraud measures and whistle-blowing were implemented. The APA had its own Conflicts of Interest Policy which covered standards of propriety and conduct, dealing in securities and other assets, confidentiality and official information, gifts and hospitality and the Business Appointment Rules.

2. Segregation of duties controls were in place to promote independent checking and reconciliation, and to avoid concentration of key activities or related controls in the hands of individuals or small groups of staff. The APA had a Service Level Agreement (SLA) with the Debt Management Office (DMO) and HMT which provided various levels of segregations of duties. In particular segregation of duties took place between front and back office activities, though it was recognised that, in a relatively small organisation such as the APA, segregation of duties can be a challenge.

3. Policies and procedures were applied to mitigate risks in business critical areas, including financial control, personnel management, and data assurance. The policies and procedures were documented for all main activities and included:

   - monthly balance sheet reconciliation and certification procedures and agreement of all material balances and accruals with suppliers;

   - procurement controls were in place to ensure only genuine expenditure was incurred on behalf of the APA;

   - appropriate financial controls to ensure the APA operated within the budget agreed with HM Treasury; and

   - an internal framework (Procura Framework) to delegate authority for specific approval decisions.

4. The Procura Framework controlled the internal delegation of authority and specified approval levels in such areas as credit decisions, operational decision-making, spending, contracts, stakeholder communication and internal policy-making. With regard to credit decisions, the framework set out the hierarchy of individuals who were authorised to approve transactions, for example Prohibited Conduct requests from RBS, depending on the size of the relevant transaction.

5. Arrangements were put in place to validate data delivered by RBS before it was distributed for use by the Investment Management, Finance and Risk teams. Key elements of these arrangements included: a series of data validation tests to assess the data quality; discussion with RBS of exceptions identified during validation testing; and, frequent, often bi-weekly, conference calls between the APA validation team and the relevant RBS data team.

6. The APA had an independent verification agent to develop and carry out policy and procedures where required for the achievement of accurate, valid and appropriate data verification, including loss verification, and reviewing the work of the RBS Group Internal Audit function. In the first three months of the reporting period the independent verification agent completed their work in support of the APA's assurance procedures on the 31 March 2012 APS data. The independent verification agent was not required to support the work of the APA after 30 June 2012.

7. The APA set up a Business Continuity Plan (BCP) which leveraged the SLA with the DMO, whereby the DMO provided IT related recovery services.

8. Staff undertook training in areas which posed particular risks. All new staff received compliance training and received copies of the APA's Conflicts of Interest Policy and the 'APA Compliance Commandments' as part of their induction packs. Subsequent to this, all staff undertook an annual compliance test, which was last conducted in February 2012. The results were assessed by General Counsel and followed up as necessary with staff. Where required to enable them to fulfil their role, staff also undertook training on the APA's Insider Dealing and Market Abuse Policy which covered procedures designed to avoid the APA and its staff breaching insider dealing and market abuse legislation.

The Corporate Governance Code

The Agency has undertaken a full review of its compliance with the Corporate Governance Code. The Agency complies with the principles of the Code requirements to the extent that it is deemed relevant and practical.

Review of effectiveness

As Chief Executive and Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. Further, I have with the assistance of the Agency's Audit and Risk Committee reviewed the effectiveness of the organisation's operation against the Corporate Governance Code. My review is informed by the work of the internal auditors conducted in prior periods, the APA managers who have responsibility for the assessing and maintaining the system, and the comments of the National Audit Office in their management letter and other reports. In relation to the review, I benefit from the advice of the Leadership Team, the Board and the Audit and Risk Committee.

There are a number of activities that form the basis of my review of the effectiveness of the APA's system of internal control. At least annually I formally review the key outcomes and findings of the following:

- the proceedings of the Leadership Team, which met regularly, usually twice a week, in the period to 30 June and on an ad hoc basis during the remainder of the reporting period. I used this forum to discuss risk and internal control systems. I supplemented Leadership Team meetings with one to one meetings with my direct reports and other APA staff to ensure effective lines of communication within the organisation;

- the proceedings of the Advisory Board; and

- the proceedings of the Audit and Risk Committee, which reviewed the effectiveness of the risk management and internal control framework.

External audit is performed by the Comptroller & Auditor General. So far as I am aware, there is no relevant audit information of which the APA's external auditors are unaware, and I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that the APA's external auditors are aware of that information. 'Relevant audit information' means information needed by the external auditors in connection with preparing their audit report.

Whilst both the internal audit reports for prior reporting periods and external audit reports for prior reporting periods and the current reporting period give assurance that the majority of controls the APA had developed were well designed and were expected to provide good assurance, the APA continued to evolve the framework for risk and financial management during the reporting period.

Lapses in Data Security

There have been no lapses of data security in this reporting period.

Significant internal control issues 2012-2013

No significant internal control issues in the APA were identified for the reporting period.

In my opinion, the APA's system of internal control was effective in response to the changing risk environment faced by the APA in the reporting period, and remained so on the date I sign this statement.

Accounts Authorisation

The financial accounts of the Asset Protection Agency for the seven month period to 31 October 2012 have been prepared by HM Treasury on my behalf. These accounts are audited by the Comptroller and Auditor General under the requirements of the Government Resources and Accounts Act 2000. His Certificate and Report is set out in Chapter 5. The cost of the external audit is set out in Note 4 of the Accounts.

Bill Dickinson
Accounting Officer (Chief Executive and Accounting Officer to 31 October 2012)
3 June 2013

5 The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Asset Protection Agency for the period ended 31 October 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statements of: Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and certify the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff 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, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Asset Protection Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Asset Protection Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Asset Protection Agency's affairs as at 31 October 2012 and of the net operating cost for the period then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1.3 of the financial statements. On 31 October 2012, the Asset Protection Agency was abolished. As a consequence, the Accounting Officer does not consider the Asset Protection Agency to be a going concern and the financial statements have been prepared on a basis other than going concern. Details of the impact of this on the financial statements are provided in Note 1.3 to the financial statements.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in Performance and Results for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
5 June 2013

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

6 Accounts of the APA

Primary Financial Statements

Statement of Comprehensive Net Income

For the period ended 31 October 2012

	Note	7 months to 31 October 2012 £000	Year to 31 March 2012 £000
Administration costs			
Staff costs	3	1,211	4,828
Other administration costs	4	2,056	5,503
Gross administration costs		**3,267**	**10,331**
Operating income	5	(3,267)	(10,331)
Total net operating costs		-	-

All expenditure is classified as administration. No programme expenditure has been incurred.

The notes on pages 37-54 form part of these accounts.

Statement of Financial Position

As at 31 October 2012

	Note	7 months to 31 October 2012 £000	31 March 2012 £000
Non current assets			
Property, plant and equipment	7	-	74
Intangible assets	8	-	1,318
Total non-current assets		**-**	**1,392**
Current assets			
Trade and other receivables due within one year	9	951	2,477
Total current assets		**951**	**2,477**
Total assets		**951**	**3,869**
Current liabilities			
Trade and other payables falling due within one year	10	(306)	(2,003)
Provisions due within one year	11	-	(923)
Total current liabilities		**(306)**	**(2,926)**
Assets less liabilities		**645**	**943**
Taxpayers' equity			
General fund		645	943
Total taxpayers' equity		**645**	**943**

Bill Dickinson
Accounting Officer (Chief Executive and Accounting Officer to 31 October 2012)
3 June 2013

The notes on pages 37-54 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 2011-12

	Notes	General Fund £000	Total Reserves £000
Balance at 1 April 2011		**(1,608)**	**(1,608)**
Changes in taxpayers' equity for 2011-12			
Non-cash charges - auditor's remuneration	4	(24)	(24)
Net operating cost for the period		-	-
Total recognised income and expense for 2011-12		**(24)**	**(24)**
Net parliamentary funding repaid		689	689
Balance at 31 March 2012		**(943)**	**(943)**

For the period ended 31 October 2012

	Notes	General Fund £000	Total Reserves £000
Balance at 1 April 2012		**(943)**	**(943)**
Changes in taxpayers' equity for 7 months to 31 October 2012			
Non-cash charges - auditor's remuneration	4	(24)	(24)
Net operating cost for the period		-	-
Total recognised income and expense for 7 months to 31 October 2012		**(24)**	**(24)**
Net parliamentary funding repaid		322	322
Balance at 31 October 2012		**(645)**	**(645)**

The notes on pages 37-54 form part of these accounts.

Statement of Cash Flows

For the period ended 31 October 2012

	Note	7 months to 31 October 2012 £000	Year to 31 March 2012 £000
Cash flows from operating activities			
Net operating cost		-	-
Adjustments for non-cash transactions	4	1,415	2,781
Changes in working capital other than cash	14	(171)	(2,091)
Use of provisions	11	(922)	-
Net cash inflow from operating activities		**322**	**689**
Cash flows from investing activities		**-**	**-**
Cash flow from financing activities			
Net parliamentary funding repaid		(322)	(689)
Net cash (outflow) from financing activities		**(322)**	**(689)**
Net increase/(decrease) in cash and cash equivalents in the period before adjusting for receipts and payments to the Consolidated Fund		**-**	**-**
Receipts due to the Consolidated Fund		-	-
Payments of amounts due to the Consolidated Fund		-	-
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**-**	**-**

The notes on pages 37-54 form part of these accounts.

Notes to the APA Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HMT. The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the APA for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Changes in accounting policy and disclosures

As per the FReM, these accounts apply EU adopted IFRS and interpretations in place as at 1 January 2012, that have an effective date of application of 1 April 2012, or earlier. The Agency has reviewed the effects that new accounting standards would have on these financial statements and has not identified any material differences.

1.2 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

1.3 Basis of preparation

These financial statements cover the 7 month period to the agency's closure on 31 October 2012. Prior period comparatives are for the year ended 31 March 2012.

As the function of the APA was to operate the Asset Protection Scheme (APS/the Scheme) on behalf of HM Treasury, with RBS exiting the Scheme on 18 October 2012, closure of the Agency resulted in all of its activities ceasing. Due to the closure of the agency, these financial statements have been prepared on a non-going concern basis. This has had no impact on the accounts other than a marginal revision to the estimated useful economic life of property, plant and equipment and intangible non-current assets. The reassessment was conducted during the financial year 2011-12 and informed by the expectation that the APA would close during 2012-13. The duration of useful lives are presented in note 1.5.

1.4 Property, plant and equipment and intangible non-current assets

1.4.1 Measurement

Property, plant and equipment and intangible non-current assets are initially recognised at cost. The threshold for capitalising non-current assets is £5,000.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the APA and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Net Income during the period in which they are incurred.

All non-current assets are carried at historical cost less depreciation, with the exception of intangible assets. Intangible assets are carried at fair value in line with FReM which has adapted IAS 38 'Intangible Assets' to take into account considerations for not-for-profit entities. The lower of depreciated replacement cost and value in use is used as a proxy for fair value.

1.4.2 Recognition

Development costs of computer software are recognised as intangible assets when they exceed the capitalisation threshold above and meet the following criteria:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

When the computer software is under development, and meets the above criteria, it is classified as Asset Under Construction until launch, when it is transferred to Software.

1.5 Depreciation

The charge for depreciation is calculated to write down the cost or valuation of property, plant and equipment to their estimated residual values by equal instalments over their estimated useful lives, which are as follows:

Furniture, fixtures and fittings	2.8 years
Office and other non-IT equipment	2.8 years
Leasehold improvements	2.8 years
Computer and telecom hardware, software and licences	Between 3 and 2.1 years
Other plant and machinery	2.8 years

Depreciation is charged in the month following acquisition up to the month prior to disposal.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Assets are assessed at each reporting date to determine if there is any indication that an asset may be impaired. If an indication exists and an asset's carrying amount is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

1.6 Cash and cash equivalents

The APA does not hold any cash or cash equivalent balances. All cash transactions are processed by HM Treasury (HMT) using HMT's bank accounts.

1.7 Financial instruments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Statement of Comprehensive Net Expenditure when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying value and the estimated future cash-flows deriving from the continued use of that asset, discounted if the effect is material.

Trade payables and other current liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The fair value of trade payables and other current liabilities with a maturity of less than one year is assumed to approximate their book values.

1.8 Provisions, contingent liabilities and contingent assets

A provision is recognised when the following three criteria are met, in line with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Contingent liabilities and contingent assets are not recognised as liabilities or assets in the statement of financial position, but are shown as a separate note. A contingent liability is disclosed in the notes to the accounts when the possibility of an outflow of economic benefit to settle the obligation is more than remote. A contingent asset is disclosed in the notes to the accounts when an inflow of economic benefit is probable.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Agency discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

1.9 Revenue recognition and operating income

Revenue is recognised when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Agency. Revenue comprises the fair value of consideration received or receivable and is shown net of VAT.

Operating income relates directly to the operating activities of the Agency. It includes recharges to participants in the APS for the cost for services incurred by the Agency.

1.10 Deferred income

Income is recognised by reference to the stage of completion of a transaction or asset at the end of the reporting period in line with IAS 18. Where payment has been received which is greater than the income to be recognised by reference to the stage of completion of the transaction or asset, this is deferred within the Statement of Financial Position. The deferred income is released to the Statement of Comprehensive Net Income as income to match the expense of the transaction or asset; see note 10.1.

1.11 Administration and programme expenditure

All expenditure is classified as administration. Net administration costs reflect the costs of running the Agency. No programme costs have been incurred.

1.12 Pensions

The provisions of the Civil Service pension schemes, which are described in note 3.2, cover some employees. The defined benefit schemes are unfunded and are contributory. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the defined benefit schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the defined benefit schemes. In respect of the defined contribution schemes, which cover some employees, the Agency recognises the contributions payable for the reporting period.

1.13 Employee benefits

The Agency has provided for the cost of accumulating compensated absences. This is accounted for when an employee renders services that increase their entitlement to future compensated absences.

1.14 Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases are charged to the Statement of Comprehensive Net Income on a straight-line basis over the term of the lease.

1.15 VAT

Many activities of the Agency are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Where VAT is recoverable in respect of APA expenditure, it is recovered by HMT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalized purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. No estimates or judgements have been identified which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

3. Staff numbers and costs

3.1 Analysis of total costs over categories

	7 months to 31 October 2012			Year to 31 March 2012
	Permanent staff	**Others**	**Total**	**Total**
	£000	**£000**	**£000**	**£000**
Wages and salaries	81	1,099	1,180	4,188
Social security costs	10	133	143	429
Accrued employee benefits	-	-	-	96
Other pension costs	20	32	52	117
Total costs	**111**	**1,264**	**1,375**	**4,829**
Less recoveries (income) in respect of outward secondments	-	(164)	(164)	(1)
Total net costs	**111**	**1,100**	**1,211**	**4,828**

Permanent staff includes those on a permanent contract of employment with the Agency, either on part-time or full-time contracts. Others include those who are on fixed term contracts with the Agency and also those who are seconded or contracted to the Agency. The Agency is not liable to social security costs, pension costs or other accrued employee benefits for those seconded or contracted to the Agency and hence their full cost is recorded within the Wages and salaries row above.

The above figures include compensation payments made in lieu of notice and the associated employer's national insurance contributions to the extent that they are not covered by the early departure costs provision which was created in the prior year, see note 11.

3.2 Pension schemes

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme but the Agency is unable to identify its share of the underlying assets and liabilities. The scheme actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk.

For the seven months to 31 October 2012, employer's contributions of £42,384 were payable at one of four rates in the range (16.7 to 24.3 per cent) of pensionable pay (2011-12: £76,352 in the range 16.7 to 23.7 per cent). The scheme actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during the reporting period to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer's contributions were paid to one or more of a panel of three appointed stakeholder pension providers for the period of £4,383 (2011-12: £4,558). Employer contributions are age-related and range from 3.0 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

Employer contributions of £5,086 being 0.8 per cent of pensionable pay (2011-12: £19,663, being 0.8 per cent of pensionable pay), were payable to the partnership pension providers to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of all employees.

Contributions due to the partnership pension providers at the balance sheet date were nil (31 March 2012: nil). Contributions prepaid at that date were nil (31 March 2012: nil).

3.3 Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

	7 months to 31 October 2012	**Year to 31 March 2012**
	Number	**Number**
Permanent Staff	1.0	1.5
Others	16.2	37.5
Total	**17.2**	**39.0**

Permanent staff includes those on a permanent contract of employment with the Agency, either on part-time or full-time contracts. Others include those who are on fixed term contracts with the Agency and also those who are seconded or contracted to the Agency.

3.4 Exit packages paid to senior staff, advisory board and other staff

	7 months to 31 October 2012		
Exit package cost band £000	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exits per cost band**
Nil‡	2	3	5
>Nil ≤10	-	2	2
>10 ≤25	4	4	8
>25 ≤50	4	1	5
>50 ≤75	-	2	2
Total number of exit packages	**10**	**12**	**22**
Total cost, £000	**210**	**241**	**451**

The above disclosure includes the two Non-Executive Directors. There were no redundancies in the year 2011-12.

The costs disclosed represent compensation payments for loss of office and the ex-gratia payments which were paid to three staff members; see note 17.

‡ Individuals who did not receive payments under the terms of the Civil Service Compensation Scheme are included here for completeness. These individuals did however receive compensation payments in lieu of notice. Compensation payments made in lieu of notice are treated as salary and are included within the wages and salaries disclosure in note 3.1 to the extent that they are not covered by the early departure provision created in the prior year, see note 11.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

4. Other administration costs

	7 months to 31 October 2012 £000	Year to 31 March 2012 £000
Consultancy costs	82	1,322
Accommodation costs	45	108
Office services	279	739
Staff-related costs, including recruitment, training and travel	18	99
Rentals under operating leases	194	455
Losses on contract terminations	23	-
Total	641	2,722
Non cash items		
Depreciation and similar charges:		
External auditor's remuneration and expenses	24	24
Provision charge / (reversal) (see note 11)	(1)	923
Depreciation and amortisation	1,392	1,833
Total non cash items	**1,415**	**2,781**
Total	**2,056**	**5,503**

No payments were made to the external auditor in respect of non-audit services in the seven months to 31 October 2012.

5. Income

	7 months to 31 October 2012			Year to 31 March 2012
	Income £000	Payable to Consolidated Fund £000	Income included in SCNI £000	Income included in SCNI £000
Fee Income	**(3,267)**	**-**	**(3,267)**	**(10,331)**

Fee income relates solely to the recharge of total operating costs to RBS.

6. Analysis of operating segments and fees and charges for the period to 31 March 2012

The Agency applies IFRS 8 and considers it has one operating segment. The segment's income and expenses are stated in the Statement of Comprehensive Net Income, and the segment's assets and liabilities are stated in the Statement of Financial Position.

All fee income disclosed in Note 5 arises in relation to the APA's function of operating the APS. All costs included within Note 4 are incurred to enable the APA to meet that function.

7. Property, plant and equipment

For the period to 31 October 2012

	Leasehold Improvement £000	Furniture & Equipment £000	IT Equipment £000	Total £000
Cost/valuation				
At 1 April 2012	28	100	220	**348**
At 31 October 2012	**28**	**100**	**220**	**348**
Accumulated depreciation				
At 1 April 2012	(24)	(84)	(166)	**(274)**
Charge in period	(4)	(16)	(54)	**(74)**
At 31 October 2012	**(28)**	**(100)**	**(220)**	**(348)**
Net book value at 31 March 2012	4	16	54	**74**
Net book value at 31 October 2012	**-**	**-**	**-**	**-**

All assets above were owned by the Agency. On closure of the agency all Property, Plant and Equipment were transferred to the Debt Management Office for nil consideration.

For the year 2011-12

	Leasehold Improvement £000	Furniture & Equipment £000	IT Equipment £000	Total £000
Cost/valuation				
At 1 April 2011	28	100	220	**348**
At 31 March 2012	**28**	**100**	**220**	**348**
Accumulated depreciation				
At 1 April 2011	(13)	(50)	(85)	**(148)**
Charge in period	(11)	(34)	(81)	**(126)**
At 31 March 2012	**(24)**	**(84)**	**(166)**	**(274)**
Net book value 31 March 2011	15	50	135	**200**
Net book value 31 March 2012	**4**	**16**	**54**	**74**

8. Intangible assets

For the period to 31 October 2012

	Software £000	Total £000
Cost/valuation		
At 1 April 2012	4,190	**4,190**
As at 31 October 2012	**4,190**	**4,190**
Accumulated depreciation		
At 1 April 2012	(2,872)	**(2,872)**
Charge in period	(1,318)	**(1,318)**
As at 31 October 2012	**(4,190)**	**(4,190)**
Net book value as at 31 March 2012	1,318	**1,318**
Net book value as at 31 October 2012	**-**	**-**

All assets above are owned by the Agency. On closure of the agency all Intangible Assets were transferred to HM Treasury for nil consideration.

For the year 2011-12

	Software £000	Total £000
Cost/valuation		
At 1 April 2011	4,190	**4,190**
As at 31 March 2012	**4,190**	**4,190**
Accumulated depreciation		
At 1 April 2011	(1,165)	**(1,165)**
Charge in period	(1,707)	**(1,707)**
As at 31 March 2012	**(2,872)**	**(2,872)**
Net book value as at 31 March 2011	3,025	**3,025**
Net book value as at 31 March 2012	**1,318**	**1,318**

9. Trade receivables and other current assets

9.1 Analysis by type

	31 October 2012 £000	31 March 2012 £000
Amounts falling due within one year		
Trade Receivables	77	-
Deposits and advances	-	(1)
Prepayments and accrued income	874	2,478
	951	**2,477**
Amounts falling due after more than one year		
Other receivables	-	-
Total	**951**	**2,477**

9.2 Intra government balances

	Amounts falling due within one year 31 October 2012 £000	Amounts falling due after more than one year 31 October 2012 £000	Amounts falling due within one year 31 March 2012 £000	Amounts falling due after more than one year 31 March 2012 £000
Balances with other central government bodies	48	-	83	-
Balances with public corporations and trading funds	29	-	-	-
Sub total: intra government balances	**77**	**-**	**83**	**-**
Balances with bodies external to government	874	-	2,393	-
Total receivables as at period end	**951**	**-**	**2,477**	**-**

10. Trade payables and other current liabilities

10.1 Analysis by type

	31 October 2012 £000	31 March 2012 £000
Trade payables	(10)	-
Other payables	(8)	(11)
Other taxation and social security	(180)	(113)
Accruals	(108)	(391)
Deferred income	-	(1,392)
Accrued annual leave	-	(96)
Total	**(306)**	**(2,003)**

10.2 Intra-government balances

	31 October 2012		31 March 2012	
	Amounts falling due within one year £000	Amounts falling due after more than one year £000	Amounts falling due within one year £000	Amounts falling due after more than one year £000
Balances with other central government bodies	**(195)**	-	(138)	-
Balances with public corporations and trading funds	-	-	-	-
Sub total: intra-government balances	**(195)**	**-**	**(138)**	**-**
Balances with bodies external to government	(111)	-	(2,788)	-
Total payables as at period end	**(306)**	**-**	**(2,926)**	**-**

11. Provisions for liabilities and charges

	Early departure costs £000	Dilapidations £000	Total £000
Balance at 1 April 2012	**(865)**	**(58)**	**(923)**
Provided in the year	-	-	-
Provisions not required and written back	-	1	1
Provisions utilised in year	865	57	922
Balance at 31 October 2012	**-**	**-**	**-**
Balance at 1 April 2011	**-**	**-**	**-**
Balance at 31 March 2012	**(865)**	**(58)**	**(923)**

The early departure costs provision for £865,000 created during financial year 2011-12 was fully utilised during the seven months to 31 October 2012 in respect of voluntary exit packages, contract terminations and redundancies, which includes compensation payments made in lieu of notice and the associated employer's national insurance contributions.

Of the provision for dilapidations created in the year to 31 March 2012, £56,820 was required and utilised in relation to charges associated with the APA's termination of the building lease. £1,416 was not required and written back to the Statement of Comprehensive Income.

All provisions had been fully utilised or released on closure of the Agency.

12. Capital commitments

There were no capital commitments at 31 October 2012.

13. Commitments under operating leases

The table below states the Agency's operating lease rental commitments within the time periods set out below.

	31 October 2012 £000	31 March 2012 £000
Buildings:		
Within one year	-	168
Two to five years	-	-
More than five years	-	-
Total	**-**	**168**
Other:		
Within one year	-	69
Two to five years	-	-
More than five years	-	-
Total	**-**	**69**

14. Reconciliation of working capital other than cash for the cash flow statement

	31 October 2012 £000	31 March 2012 £000
Movements in working capital other than cash:		
Decrease in current trade and other receivables	1,526	585
(Decrease) in current trade and other payables	(1,697)	(965)
(Decrease) in non-current trade payables	-	(1,711)
Changes in working capital other than cash	**(171)**	**(2,091)**

15. Financial instruments

As the cash requirements of the Agency are met through the Estimate process and managed by HMT, 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 Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity or market risk.

16. Contingent assets and liabilities

The Agency had no contingent assets or contingent liabilities as at 31 October 2012.

17. Losses and special payments

The administration costs of the Asset Protection Agency include losses of £13,000 arising from contract terminations (2011-12: £ nil). Of this, £12,000 relates to third party contracts and £1,000 relates to staff on loan from Home departments.

In relation to staff exit costs, payments of £99,000 arose from three special severance payments (2011-12: £ nil), see note 3.4. Special severance payments paid to employees are payments which go beyond normal statutory or contractual requirements when leaving employment in public service whether they resign, are dismissed or reach an agreed termination of contract. Approval for these payments was obtained from HM Treasury.

18. Related party transactions

The Asset Protection Agency is an executive agency of HM Treasury. HM Treasury is regarded as a related party. During the period, the Agency has had a number of material transactions with HM Treasury and with other entities for which HM Treasury is regarded as the parent Department. The principal such transaction was a Service Level Agreement that was entered into between HM Treasury, the Debt Management Office (DMO) and the Agency. The DMO is an executive agency of HM Treasury and is a related party of the Agency. Under this Service Level Agreement the DMO provides information technology support and facilities services to the Agency. All costs are recharged to the Agency on a commercial basis. The building lease described in note 13 is with the DMO.

Royal Bank of Scotland (RBS)

HM Treasury has a 66 per cent stake in the voting share capital of RBS, and as such RBS is a related party of the Agency. During the year RBS made payments to the Agency in respect of the recharge of the Agency's costs. Before commencement of the Agency, RBS also made payments to HM Treasury in respect of the recharge of HM Treasury's costs in setting up the Agency.

Lloyds Banking Group (LBG)

HM Treasury has a 39 per cent stake in the voting share capital of LBG, and as such LBG is a related party of the Agency. Before commencement of the Agency, LBG made payments to HM Treasury in respect of the recharge of HM Treasury's costs in setting up the Agency.

Other

In addition, the Agency has had a small number of transactions with other government departments and other central government bodies, and entities included within the Whole of Government Accounts.

Senior management have confirmed to the Agency's CEO that they have not entered into any transaction with related parties which are not in the ordinary course of business, or which are at preferential rates. Senior management did not have company directorships or other significant interests which conflicted with their management responsibilities. The CEO has also confirmed that he has not entered into any transaction with related parties which were not in the ordinary course of business or which are at preferential rates nor did he have company directorships or other significant interests which conflicted with his management responsibilities.

19. Events after the balance sheet date

The financial statements were authorised for issue by the Accounting Officer on 5 June 2013.

7 Remuneration Report

7.1 Remuneration policy

The APA required staff with specialist financial and technical expertise. Before the APA's launch, HMT ran a compensation bench-marking exercise to determine the level of remuneration and benefits needed to attract candidates with the requisite skills. On the basis of the bench-marking exercise, HMT Operations Committee approved the pay principles to be adopted in setting salary ranges and the packages for the senior APA staff disclosed below were approved by the Cabinet Office.

7.2 Remuneration Committee

The APA Remuneration Committee existed to advise the Chief Executive and Advisory Board on remuneration for APA staff and to give HMT such advice as they may seek on pay and bonus recommendations in respect of the Chief Executive. The members of the Remuneration Committee were John B. Caouette and Hamish Buckland. The Chief Executive also attended meetings of the Remuneration Committee except where his own performance was being discussed.

7.3 Service contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit and on the basis of fair and open competition, but also includes details of the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

The majority of the employees at the Asset Protection Agency were appointed on fixed term appointment basis, received a basic salary, and were eligible to be considered for bonuses based on performance. However, due to the modified terms and conditions of their employment, they were not eligible for any employer pension contributions to their salary. Employees on secondment from other Government departments retained the terms and conditions of their home department.

As a permanent staff member, the Chief Executive Officer was eligible for pension contributions as detailed below. Independent members of the Advisory Board were appointed in accordance with Cabinet Office guidance and paid on a fee arrangement only.

7.4 Remuneration received

The following sections provide details of the salaries, compensation in lieu of notice payments and pension entitlements of the most senior civil servants as a result of their employment by APA and their influence on managing or controlling the activities of the APA. This report is based on payments made by the APA and subsequently recorded in the accounts of the APA. These disclosures have been subject to external audit where indicated.

Table 7.1 below sets out the salary and compensation in lieu of notice paid by the APA to senior APA staff and fees paid to members of the Advisory Board for their services to the APA. Salary includes gross salary or fees, overtime and any other allowance to the extent that it is subject to UK taxation for the seven month period ended 31 October 2012.

Table 7.1: APA senior staff salaries and Advisory Board fees (Audited)

	Note	7 months to 31 October 2012	2011-12
		£000	£000
		Salary (Full Year Equivalent (FYE))	Salary
Senior APA staff			
Bill Dickinson – Chief Executive Officer	(1)	80-85 (135-140)	135-140
Ion Dagtoglou – Chief Investment Officer	(2)	155-160 (160-165)	160-165
Brian Scammell – Chief Credit Officer (Real Estate)	(3)	30-35 (130-135)	130-135
Paul Doran – Chief Risk Officer	(4)	40-45 (140-145)	5-10 (140-145)
Lucy Wylde – General Counsel	(5)	-	145-150 (155-160)
Advisory Board members			
John B. Caouette	(6)	5-10 (10-15)	10-15
Hamish Buckland	(7)	5-10 (10-15)	10-15

Notes:

(1) Bill Dickinson was employed on a permanent contract from 22 February 2010, taking up his office as Chief Financial and Operating Officer from 1 March 2010. On 7 October 2011 he was appointed Chief Executive Officer. The APA makes employer contributions to the Nuvos scheme. The real increase in the pension during the reporting period was £3,422 (2011-12: £4,000). As at 31 October 2012, the accrued pension and related lump sum (as at the age of 65) was within the banding £17,501-£20,000 (within the banding £7,501-£10,000 for 2011-12). The CETV of his pensions as at 31 October 2012 was £181,000. The increase in the CETV during the reporting period funded by the employer was £31,000 (2011-12: £21,000).

(2) Ion Dagtoglou was employed on 30 November 2009 on a four year fixed term contract. He was not eligible for employer pension contributions. His employment ended on 31 October 2012.

(3) Brian Scammell was employed from 4 January 2010 as a Chief Credit Officer on a two year fixed term contract on a four day week basis. In January 2012 his contract was extended to 30 June 2012. His salary disclosed above (including FYE) is on a four day week basis. He was not eligible for employer pension contributions. His employment ended on 30 June 2012.

(4) Paul Doran was appointed as Chief Risk Officer on 16 March 2012. Paul was employed at the APA on a four year fixed term contract from 26 April 2010. He was not eligible for employer pension contributions. He left the APA through a voluntary exit scheme on 23 April 2012.

(5) Lucy Wylde was on loan to another Government department from 1 April 2012 and consequently her remuneration in the period 2012-13 is not included in the APA's remuneration report. She was the APA's General Counsel throughout 2011-12. In that period her salary was in the range £145,000-£150,000 (full year equivalent: £155,000-£160,000).

(6) John B. Caouette was appointed as a member of the Advisory Board on 18 March 2010 on a one year fixed term contract. The APA exercised options to extend this contract for the 12 months to 17 March 2012 and the 12 months to 17 March 2013. He receives a fee within the banding £10,000 - £15,000 per annum. His appointment was terminated on 31 October 2012.

(7) Hamish Buckland was employed as a Chief Credit Officer until 31 January 2011, for which his salary fell in the banding £55,000 - £60,000. He also served as a member of the Advisory Board on the basis of a one year fixed term contract from 18 March 2010. The APA exercised options to extend this contract for the 12 months to 17 March 2012 and the 12 months to 17 March 2013. He receives a fee within the banding £10,000 - £15,000 per annum for his services as a member of the Advisory Board. His appointment was terminated on 31 October 2012.

7.5 Compensation for loss of office

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

Ion Dagtoglou left under compulsory early severance terms on 31 October 2012. He received a compensation payment within the banding of £25,000 to £50,000.

Brian Scammell left under compulsory early severance terms on 30 June 2012. He received a compensation payment within the banding of £10,000 to £25,000.

Paul Doran left under voluntary exit terms on 23 June 2012. He received a compensation payment within the banding of £50,000 to £100,000.

The above costs are included within note 3.4 of the accounts.

7.6 Median Pay Ratio (Audited)

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 full year equivalent banded remuneration of the highest-paid director in the APA in the seven month period to 31 October 2012 was £185,000-£190,000 (2011-12, £185,000-£190,000). This was 4.0 times (2011-2012, 1.9 times) the median full year equivalent remuneration of the workforce, which was £46,500 (2011-2012, £99,000).

In 2012-13, 0 (2011-2012, 0) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £23,000 to £190,000 (2011-12, £23,000 to £190,000).Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Remuneration figures have been calculated for the seven months to 31 October when the Asset Protection Agency closed. At 31 October there were relatively few staff remaining due to the Agency winding down operations and these staff primarily comprised finance and other support staff. The change in staff mix resulted in an increase to the median pay ratio.

7.7 Performance bonuses (Audited)

At the end of the 2011-12 reporting period performance appraisals were undertaken in line with Civil Service appraisal and performance award policies. Bill Dickinson waived any bonus for the period. During the reporting period performance bonuses in respect of the year to 31 March 2012 were paid to members of the Leadership team as follows:

Ion Dagtoglou	£24,750
Lucy Wylde	£22,000
Brian Scammell	£19,800
Paul Doran	£13,000

Individual performance bonus awards to other members of APA staff of £128,000 were approved by the Remuneration Committee on 24 April 2012 in respect of the period to 31 March 2012.

Michael Ashley was appointed as Chairman of the Audit and Risk Committee in March 2010. He does not receive remuneration from the APA.

7.8 Notice periods

Senior APA staff (excluding Advisory Board members) were required to give three months' notice to terminate their employment.

For all senior APA staff the APA was entitled to give five weeks' notice (extended by one week per year over four years of continuous service) if retired on age grounds, if dismissed on grounds of inefficiency, or if dismissal is the result of disciplinary proceedings in circumstances where summary dismissal is not justified. If retired on medical grounds the period of notice is up to nine weeks. If employment is terminated compulsorily on any other grounds, unless such grounds justify summary dismissal at common law or summary dismissal is the result of disciplinary proceedings, six months' notice had to be given. The exception to this was in respect of Lucy Wylde for whom the notice period was 12 months if notice had been given before 1 March 2012 and subsequently was 6 months.

If employment is terminated without the notice periods above, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

Members of the Advisory Board are entitled to give one month's notice. The APA is entitled to give one month's notice.

7.9 Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

7.9.1 Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. For the senior management's pension entitlements from the Civil Service Pension Scheme, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension Scheme arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated in accordance with the Occupational Pension Scheme (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

7.9.2 Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Bill Dickinson
Accounting Officer (Chief Executive and Accounting Officer to 31 October 2012)
3 June 2013

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