

# Asset Protection Agency Framework Document

## 1 Introduction

This Framework Document has been drawn up by the Treasury. It describes:

- the status and structure of the Asset Protection Agency (the “APA”);
- the objectives and overall responsibilities of the APA;
- the responsibilities of the Chief Executive of the APA;
- the relationship between the APA and the Treasury (including the Chancellor of the Exchequer, Treasury Ministers and the Principal Accounting Officer) and Parliament; and
- certain ancillary matters relating to the operation of the APA.

The APA is part of the Treasury and was established as an executive agency to operate the Asset Protection Scheme (the ‘Scheme’) which was announced by the Treasury on 19 January 2009. The APA was launched on 7<sup>th</sup> December 2009.

The objectives of the Scheme are to support the stability of the UK financial system, increase confidence and capacity to lend, and thus support the economy by protecting financial institutions participating in the Scheme against exceptional credit losses on certain portfolios of assets.

The APA is located in the City of London and is expected to have around 50 staff.

The APA website is to be found on the Treasury’s main website at [www.hm-treasury.gov.uk/APA](http://www.hm-treasury.gov.uk/APA)

The Minister ultimately responsible for the APA is the Chancellor of the Exchequer. He is supported by the Financial Services Secretary to the Treasury.

## 2 Function and responsibilities of the APA

The main function of the APA is to operate the Scheme on behalf of the Treasury.

The APA’s principal responsibilities are:

- A) ensuring that each participating financial institution complies with the terms and conditions attaching to its participation in the Scheme, including through:
  - proactive and timely exercise of the Treasury’s rights under the Scheme; and
  - engagement with participating financial institutions to determine appropriate asset management strategies for covered assets.
- B) forecasting potential future payouts under the Scheme; and
- C) verifying losses and recoveries on covered assets and advising the Treasury on any payments to be made under the Scheme.

Under the terms and conditions of the Scheme, participating financial institutions are required to manage and administer covered assets (and certain related assets) in accordance with a specified asset management objective. This objective is to maximise the net present value of the relevant assets, including by minimising losses and potential losses and maximising recoveries and potential recoveries in respect of them.

In exercising on behalf of the Treasury any of the approvals, consents or interventions given to the Treasury under the Scheme that relate to the management of covered assets, the APA makes its decisions in furtherance of the specified asset management objective or to reduce the risk to the taxpayer. The primary objective in making these decisions is to achieve the best financial outcome reasonably possible. If at any stage, the APA becomes aware that the Accounting Officer's duty to achieve the best outcome for the public sector conflicts with this, the APA should alert the Treasury and seek to resolve the issue with the Treasury's Principal Accounting Officer.

The APA should keep the Treasury in touch with significant developments that could affect future payouts under the Scheme and operate so as to avoid surprises as far as possible.

The APA may also be required from time to time to provide advice on other aspects of the Treasury's business.

### **3 Key target areas**

HMT will set the strategic objectives of the APA and agree financial and performance targets with the APA. These objectives and targets will be published in the APA's Business Plan (as referred to in Section 11 of this Framework Document).

Through effective management of the Scheme the APA will be supporting the Treasury's Departmental Strategic Objectives to maintain sound public finances and ensure high and sustainable levels of economic growth, well-being and prosperity for all.

The APA will provide such management information as deemed necessary to allow the Treasury to manage its performance

### **4 Roles and relationships**

The Chancellor of the Exchequer will determine the policy and financial framework within which the APA operates. He/she will also agree the strategic objectives, and the key financial and performance targets for the APA and approve the Business Plan (as referred to in Section 11 of this Framework Document) and will make adjustments to this document or make other directions if following monitoring of the APA's activities and decisions he/she deems this necessary. The Chancellor is also ultimately responsible for any public communication and reporting in relation to the Scheme.

Certain significant decisions relating to the Scheme will require approval of the Chancellor or Treasury Ministers to whom the Chancellor has delegated authority, including:

- participation in the Scheme;
- termination of a participating financial institution's participation in the Scheme; and
- any purchase by the Treasury of assets from participating financial institutions;

Such decisions will be taken following consultation by the Chancellor or Treasury Ministers with Treasury Permanent Secretary, the Chief Executive of the APA and Treasury officials.

The reservation to the Chancellor or Treasury Ministers of certain decision making powers under the terms and conditions of the Scheme will not affect the validity of any decision or action taken by the APA, which will be binding on participating financial institutions.

The Chancellor will not be involved in day-to-day management of the APA and has delegated the day-to-day management of the APA and operational decisions relating to the Scheme to the Permanent Secretary to the Treasury. The Permanent Secretary has further delegated this responsibility to the Chief Executive of the APA.

The Chancellor will exercise his/her responsibilities by:

- agreeing this Framework Document and any revisions to it;
- approving the strategic objectives for the APA;
- approving the APA's Business Plan, including the key performance targets and any necessary in-year revisions following consultation with both Treasury officials and the Chief Executive of the APA;
- monitoring of the APA's performance against targets (financial and non-financial);
- taking certain decisions relating to the Scheme that have been reserved by the Treasury; and
- approving any communication or disclosure to Parliament or the wider public, including of the APA's annual report and accounts, except where this responsibility has been delegated to the Chief Executive of the APA.

The Chancellor may delegate some or all of these responsibilities to a Treasury Minister or Ministers.

The Chief Executive of the APA and other members of the senior management team and the APA's Board will meet the responsible Treasury Minister(s) at least once a year to agree the APA's objectives and financial and performance targets which are to be included in the Business Plan and discuss performance, risks and such other issues as might be appropriate at the time.

The Chief Executive of the APA will have the right of direct access to the responsible Treasury Minister(s).

## **Treasury Sponsorship**

The Director of the International and Finance Directorate responsible for Financial Stability sponsors the Scheme. He/she is to be supported in this role by the APS Sponsorship Team.

The Treasury will:

- advise Treasury Ministers on the strategic direction of the APA in the context of wider Treasury or cross-governmental objectives;
- ensure that procedures are in place to exercise meaningful oversight of the APA's strategy and performance;
- advise Treasury Ministers in relation to decisions that have been retained by Treasury Minister;
- advise Treasury Ministers on their response to the APA's performance;
- advise Treasury Ministers on public communications and reporting matters relating to the Scheme; and
- ensure that the APA has the delegations and authorities necessary for effective delivery of its Business Plan and continuous improvement.

The APS Sponsorship Team will implement procedures to ensure that they receive all information required to monitor the performance and effectiveness of the APA.

## **Chief Executive**

The Chief Executive of the APA is responsible for delivering the APA's remit, as outlined in this Framework Document and the APA's Business Plan, in a way that he/she judges will deliver value for money. This role is to be undertaken in a manner which is compatible with the terms and conditions of the Scheme.

Day-to-day management of the APA is delegated to the Chief Executive who is appointed by the Treasury.

The Chief Executive is accountable to the Treasury for the APA's performance, and specifically for:

- acting as Accounting Officer for the APA;
- reporting regularly to the Treasury and other stakeholders as agreed with the Treasury on compliance by participating financial institutions with their obligations under the Scheme and on the Treasury's exposure under the Scheme;
- meeting the objectives set for the APA;
- advising the Treasury on any decisions that need to be made relating to the Scheme that have been reserved by the Treasury;
- managing the APA's resources efficiently and effectively within an agreed budget;
- achieving the APA's agreed financial and performance targets;
- preparing the APA's Business Plan and agreeing it with the Treasury;
- reporting on and accounting for the APA's performance; and
- acting as the APA's representative on all relevant Treasury Committees. The Chief

Executive can delegate responsibility for attending these committees to other staff members of the APA.

The Chief Executive of the APA will report to the Second Permanent Secretary of the Treasury. The Second Permanent Secretary of the Treasury will act as the sponsor of the APA on the Treasury's Board.

### **Management of the APA**

The APA will have a Board to advise its executive management on all strategic operational and management issues pertaining to the achievement of the APA's objectives and fulfilment of its responsibilities. Responsibility for all decisions taken by the APA remains with the Chief Executive of the APA. The APA Board is advisory; it has no statutory function. It works with the Chief Executive to develop corporate policy, ensure good governance and monitor performance.

Members of the APA's Board will be appointed by the Treasury Permanent Secretary, in line with applicable HM Treasury and Cabinet Office guidance, acting on the recommendation of the Chief Executive of the APA. The Board is expected to consist of:

- a number of independent members, one of whom acts as Chairman;
- senior representatives from the Treasury
- the Chief Executive of the APA; and
- other senior executives of the APA, including, as required by Treasury guidance for all public bodies, a finance director or other named director fulfilling the responsibility of finance director who holds professional qualifications from a recognised accounting body.

The Board will normally meet at least quarterly, or more often as required. Its meetings will be chaired by the Chairman. The Board may designate other Committees of the Board as it determines appropriate. These will include:

- an Audit Committee with responsibility for developing and maintaining a sound system of internal control to support the achievement of the APA's objectives and responsibilities as set out in Section 14; and
- a Remuneration Committee to provide advice on remuneration arrangements and terms and conditions for the staff of the APA as set out in Section 15.

## **5 Accounting Officers**

### **Principal Accounting Officer**

The Permanent Secretary to the Treasury is the Treasury's Principal Accounting Officer. As such he/she is the Accounting Officer for the Treasury's Administrative Vote, for the Consolidated Fund and for the National Loans Fund. He/she is the principal adviser to Treasury Ministers and is responsible for ensuring a high standard of financial management

throughout the Treasury. The Permanent Secretary also advises Treasury Ministers on Treasury policy in relation to the Scheme, including the operation of the APA, the setting of appropriate financial and performance targets, resource levels, accountability, propriety and regularity. He/she must be satisfied that the APA has adequate financial systems and procedures in place to promote the efficient and economical conduct of its business, and to safeguard financial propriety and regularity.

### **Chief Executive**

The Chief Executive of the APA is responsible for the day-to-day management of the APA and is responsible to Treasury Ministers and accountable to Parliament for the APA's performance and operations in respect of the APA's administrative costs.

The Permanent Secretary has designated the Chief Executive as the APA's Accounting Officer. His/her responsibilities in this respect, including responsibility for the propriety and regularity of the public finance for which he/she is accountable and the keeping of proper records, are set out in chapter 3 of "Managing Public Money". The Permanent Secretary delegates certain financial powers to the Chief Executive through a formal delegation letter, updated from time to time.

The Chief Executive is further responsible for ensuring that the requirements of Managing Public Money are met, that the APA observes the general guidance issued by the Treasury and the Cabinet Office, and for putting into effect any other government policies notified to him/her. Both the Principal and the Agency Accounting Officers may be summoned to appear before the Committee of Public Accounts or other Parliamentary select committees at hearings when matters concerning the APA are being discussed.

## **6 Relationship with other bodies**

The APA will respond constructively to relevant initiatives from elsewhere in Central Government and other public bodies. These may include, for example, working with the Financial Services Authority, the Bank of England and others as required to enable the APA to achieve its objectives and fulfil its responsibilities as outlined in this Framework Document.

## **7 Relationship with Parliament**

Treasury Ministers remain accountable to Parliament for the work of the APA. Treasury Ministers are responsible for all matters concerning the policy framework within which the Scheme operates (including the terms and conditions on which participating financial institutions accede to the Scheme), certain decisions relating to the Scheme requiring ministerial approval, other policies relevant to the operation of the APA, for determining the APA's strategic objectives and for approving its annual financial and performance targets.

The Chief Executive of the APA may be summoned to attend as a witness with the Principal Accounting Officer of the Treasury and/or other Treasury officials or to provide written evidence to a hearing of the Committee of Public Accounts (PAC) to give evidence on the discharge of his/her responsibilities as an Accounting Officer.

The Chief Executive of the APA may also be summoned to attend as a witness or to provide written evidence to a hearing of the Treasury Select Committee or other Select Committees of Parliament.

Members of Parliament may write directly to the Chief Executive on issues relating to the Scheme or APA operational issues. Treasury Ministers may ask the Chief Executive to write to MPs in response to written Parliamentary Questions and individual letters about matters assigned to them. The Chief Executive's letters in reply to written Parliamentary Questions will be published in the Official Report.

The Chief Executive is to provide Treasury Ministers with any information needed to answer Parliamentary Questions or deal with other Parliamentary business.

## **8 Relationship with participating financial institutions**

The Chief Executive is responsible for all communication with participating financial institutions in relation to the operation of the Scheme and will ensure that procedures exist to ensure effective communication with such organisations.

The Chief Executive will also ensure that the APA adopts appropriate procedures for managing conflicts and inside information. In particular, s/he will ensure that robust guidelines are established such that the APA respects confidentiality in relation to information on assets covered by the Scheme, including in relation to information provided to the Treasury on assets covered by the Scheme.

## **9 Corporate services policy**

The APA will put in place corporate services policies to cover finance and procurement, human resources, health and safety, correspondence and enquiry handling, information management and security and other areas as it judges appropriate to its business needs.

Unless agreed otherwise with the Treasury, these corporate services policies will be in line with the Treasury's policies in these areas.

## **10 Financial arrangements**

The budget of the APA will be prepared on an annual basis by the APA, submitted to the relevant Treasury Committee via the APS Sponsorship Team for agreement and subject to approval by the Principal Accounting Officer of the Treasury and Treasury Board. Once agreed it forms one section of the Treasury's Request for Resources as presented to Parliament. The APA is subject to both gross and net running cost controls.

The APA is also expected to participate in the in-year forecasting exercises for Treasury Group Finance. This will require the APA to provide updated losses and cashflow forecasts as required by Treasury Group Finance for these exercises. Typically this will be at the end of months 5 and 7.

The APA is responsible for assessing its medium and long-term resource requirements and the scale and profile of losses under the Scheme to inform spending review discussions and public spending plans.

The Chief Executive of the APA otherwise has full financial authority within the budget allocated, provided that relevant expenditure is undertaken in accordance with the Business Plan.

It is expected that the Treasury will recharge participating financial institutions for all ongoing costs associated with the Scheme.

## **11 Business Plan**

The APA's Board is responsible for the preparation on an annual basis of a twelve-month Business Plan. This contains the forward-looking aims, objectives and targets for the APA across all its business activities. The APS Sponsorship Team will guide the APA in the preparation of the Business Plan. The APA's Business Plan will be subject to Treasury approval. Once approved, the Business Plan will be published, subject to the redaction of any commercially sensitive information.

The Business Plan will identify how the APA intends to meet its strategic objectives and fulfil its responsibilities against a changing background. It will include the activities, priorities and tasks that the APA has identified for the coming year and how resources will be allocated accordingly to meet the APA targets. The Business Plan will also set out any initiatives that the APA proposes to take for the duration of the Business Plan.

## **12 Annual report and accounts**

The APA is to prepare and publish an Annual Report and Accounts each year which will be laid before Parliament by the Treasury. Each Annual Report and Accounts will be produced as a single document and prepared in accordance with the Government Financial Reporting Manual.

The Annual Report and Accounts must contain:

- details of the APA's performance against targets for the year;
- details of the APA's progress towards its strategic objectives;
- a summary of the APA's activities during the year;
- an update on compliance by participating financial institutions with the terms and conditions of the Scheme;



- financial information about the operation of the APA and the Scheme; and
- any other issues that the Treasury or the APA deem appropriate.

The APA will use the existing Treasury accounting system (and HR system where relevant), supplemented by systems required to provide database and reporting functionality. The APA Accounts will be consolidated into the Treasury Group Accounts and its accounts will be signed off by the relevant Treasury Committee

### **13 Audit**

The APA will make arrangements for internal audit which will conform to Treasury standards. The head of Treasury Group Internal Audit will be invited to all meetings of the APA's Audit Committee.

The APA's accounts will be subject to external audit by the Comptroller and Auditor General.

The relevant Treasury Committee will scrutinise the APA's accounts, as part of its remit to scrutinise all Treasury Group accounts.

### **14 Risk Management**

The APA Board is required to designate an Audit Committee with responsibility for developing and maintaining a sound system of internal control to support the achievement of the APA's objectives and responsibilities. This system of internal control must include procedures for identifying, prioritising and addressing the principal risks that will be faced by the APA in fulfilling its objectives.

The Audit Committee will be responsible for reviewing and monitoring the APA's risk register, on advice from the relevant Treasury Committee.

APA will provide any reasonable input necessary to support the Treasury's management of its balance sheet risks. This will include providing the risk register to the Treasury at least quarterly.

### **15 Human Resources**

The overall remuneration policy for the APA's Chief Executive, Board and other staff will be set by the relevant Treasury committee. The setting of the remuneration policy, and any subsequent amendments to it, will be made only after consultation with the Chief Executive of the APA and the APS Sponsorship Team.

The Chief Executive of the APA will be responsible for setting the APA's other human resources policies and managing the staff of the APA. The Chief Executive of the APA has delegated authority for setting individuals' pay, pay bargaining and setting terms and conditions within the parameters of the remuneration policy.

The Remuneration Committee is a committee of non-executive directors from the APA's Board. This committee recommends to the Chief Executive the remuneration arrangements for APA staff within the overall remuneration policy set by the relevant Treasury Committee. The Chief Executive's remuneration package is set by the Treasury.

The APA will have a staff handbook setting out the terms and conditions of employment at the APA.

The APA's human resources policies (including with respect to remuneration) will be designed to:

- recruit, retain and motivate staff;
- be appropriate to the APA's requirements;
- recognise the specialist skills and expertise required by the APA to fulfil its function; and
- be consistent with the Civil Service Management Code.

The APA will provide appropriate training to help staff develop their professional effectiveness and personal skills generally.

Notwithstanding the Chief Executive's delegated authority, the APA will operate in accordance with Treasury HR policies on conduct, discipline, attendance management, equal opportunities and health and safety.

The Treasury may participate in recruitment boards for senior management positions within the APA (that is, for senior management of the APA and non-executive board members of the APA). The APA will hold discussions with the head of the APS Sponsorship Team prior to initiating recruitment for senior management positions.

All permanent staff will be civil servants. They will be subject to the usual disciplines on outside appointments and use of official information. The Treasury's policies on compliance, fraud prevention and whistle blowing will also apply along with Cabinet Office rules on data handling. In addition, the APA will develop guidance relating to personal transactions in listed securities and conflicts of interest which will be mandatory for all employees of the APA.

## **16 Review arrangements**

In line with guidance on reviewing executive agencies, the APA's high-level objectives, structures and processes will be integrated into future Treasury reviews of economic stability.

A review of this Framework Document will be conducted by the Treasury by no later than March 2011 and annually thereafter. This Framework Document will be amended to reflect

any recommended changes arising out of such review following consultation between the APA, the Treasury and the Cabinet Office.

Any amendments to this Framework Document, whether proposed before the next review or otherwise, must be approved by the Treasury.

## **17 Publication**

Copies of this Framework Document and any subsequent amendments will be placed in the libraries of the House of Parliament and can be obtained from the APA at Asset Protection Agency, 5<sup>th</sup> Floor, Eastcheap Court, 11 Philpot Lane, London EC3M 8UD. The Framework Document is also available on the APA's website.