



## **Severance payments and wider benefits for senior BBC managers**

Report by the Comptroller and Auditor General  
presented to the BBC Trust Finance Committee,  
20 June 2013









**BRITISH BROADCASTING CORPORATION**

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benefits for senior BBC managers**

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Auditor General presented to the  
BBC Trust Finance Committee,  
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*Presented to Parliament by the Secretary of  
State for Culture, Media and Sport  
by Command of Her Majesty  
July 2013*

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# BBC Trust response to the National Audit Office value for money study: Severance payments and wider benefits for senior BBC managers

## Introduction

The BBC Trust receives value for money investigations into specific areas of BBC activity. These investigations, whether carried out by the NAO or by organisations commissioned by the BBC Trust, provide valuable insights and recommendations which support us in fulfilling our obligations under the Royal Charter.

Some of the conclusions reached by the NAO in this report are deeply worrying, particularly the failure of the BBC Executive and its Remuneration Committee to follow agreed policy and entitlement. Such practices are entirely unacceptable and the BBC Trust welcomes the far stricter approach now introduced by the current Director General and the Non-Executive Directors of the BBC's Executive Board to both severance policies and their implementation.

The BBC Trust has made it clear that there can be no repeat of such fundamental failures of governance. While the BBC Trust is not empowered under the Royal Charter to intervene directly in decisions around individual employment arrangements other than those for the Director-General, we will require far higher levels of reporting and annual assurance in regard to the remuneration policies and practices of the BBC going forward.

## The BBC Trust's role

Under the Charter, the BBC Trust is responsible for setting the Director-General's entitlement to severance and we are pleased that the NAO has concluded that the severance payment to George Entwistle in November 2012 was equivalent to his contractual notice period of 12 months. However, to avoid paying such a sum in the future, the BBC Trust has since agreed more stringent contractual terms with the new Director-General, reducing the notice period from 12 to six months.

Although the BBC Trust cannot play a part in approving other individual remuneration or severance packages, we do, as the BBC's governing body, have an overall responsibility for value for money. For that reason the BBC Trust has, for a number of years, been challenging the numbers and overall cost of senior managers and is pleased that the BBC has made significant reductions and savings in this area. This is acknowledged in the NAO report which shows that the saving made by reducing senior manager numbers exceeds the cost of severance payments. Nevertheless, the BBC Trust has become increasingly concerned about the size and frequency of these severance packages and this is why we suggested last November that the NAO should undertake this review. Similar concerns were also raised by the Public Accounts Committee and the NAO's report has demonstrated that these concerns were justified.

## BBC Trust views on the report findings

The NAO has concluded that, although it has not been possible to draw meaningful comparisons with the private sector or wider media industry (because they do not generally reveal details of severance payments) the BBC's severance policy has tended to exceed the terms available within the civil service. In this regard, the BBC Trust welcomes the new policy introduced by the Director-General, which caps future payments at the lower of £150,000 or 12 month's salary, well below the maximum that applies to senior civil servants.

The BBC Trust is, however, deeply concerned by the NAO's conclusion that, too often, BBC management has approved payments which have exceeded entitlement under the policy which was in place, in some cases without proper explanation as to why any such variation was approved. The BBC Trust anticipates that these payments will, quite rightly, be met with considerable dismay by licence fee payers and by BBC staff.

In this context, it has to be recognised that the Executive has, in the past, failed to exert adequate governance in this area. This has resulted in decisions being taken which were poor value for money, undermine the culture of accountability that should exist in any publicly funded organisation and put public trust in the BBC at risk. The BBC Trust welcomes the support of the new Director-General and Non-Executive Directors who share this conclusion.

## BBC Trust response

There can be no repeat of such a fundamental failure of central oversight and control. To this end the BBC Trust will:

- Look to the Director-General to implement rigorously his recently announced policy on severance including the £150,000 cap on future payments.
- Ensure that the NAO's recommendations are implemented in full and require the Executive to report back to us on progress against each of the agreed actions as part of formal, regular reporting and assurance from the Executive Board Remuneration Committee to the BBC Trust. In doing so, we expect the Executive to investigate any failures that have been identified in the approval process for previous payments.
- Ensure that decision makers are held to account for any departures from the new policy by requiring BBC management to report publicly in the BBC's audited Annual Report and Accounts on any exceptions and the justification for them.
- Ensure that a follow up review is carried out within two years to provide further assurance that the NAO's findings and recommendations have been acted upon.

It is essential that the way the BBC rewards employees, in both its public services and the Corporation's commercial subsidiaries, is coherent, understandable and defensible to staff and above all to licence fee payers. This will be a test we apply to the Executive's new remuneration strategy when it is brought to the BBC Trust later this year. The BBC Trust welcomes the commitment of the new Director-General in tackling this issue and considers that the actions set out here will help to ensure that the BBC lives up to the expectations licence fee payers have of the Corporation.

BBC Trust  
July 2013



# BBC Executive response to the National Audit Office value for money review: Severance payments and wider benefits for senior BBC managers

## The BBC Executive views on the report findings

The BBC takes seriously its duty to provide licence fee payers with value for money at all times. The NAO Report shows that on the issue of severance payments that duty was not discharged as well as it should have been.

The reduction of senior managers has achieved significant savings, well above the cost of making those reductions. Senior manager redundancies made in the three years from January 2010 to December 2012 generated more than £35 million of savings. This will increase to approximately £92 million by the end of the licence fee period in March 2016 – almost 4 times the £25 million spent on delivering them.

In spite of delivering these savings however, we accept the NAO conclusion that these payments could have delivered greater value for money. We also accept that our processes were not robust enough and that our guidelines have not always been properly followed.

## Responses to the NAO's recommendations

We have accepted the recommendations in the NAO report in full and have already carried out the following actions:

- A severance pay cap of £150,000 effective from September 2013.
- Reducing redundancy entitlements for new starters from 24 to 12 months' pay.
- No further Pay In Lieu Of Notice (PILON) – All senior managers and other employees will be expected to work their notice periods in full.
- Agreement that notice periods will be shortened without compensation if staff take up alternative employment during their notice period.
- Severance payments in excess of £75,000 will now be approved by the BBC Senior Management Remuneration Committee.
- The Senior Management Remuneration Committee will be accountable on a quarterly basis to the Executive Remuneration Committee, whose membership is exclusively made of non-executive directors.

- The BBC's Human Resources division will keep a detailed record of all redundancy payments and severance payments.
- We will report progress against these actions and towards our wider remuneration strategy to the Trust by October 2013, and provide a full review by June 2014, then on an annual basis.
- We will communicate the revised severance policies clearly and ensure they are applied consistently.
- The BBC will apply increased scrutiny to severance payments that differ from standard entitlements.

This follows moves that the BBC has made since 2009, as below:

- reducing its senior manager headcount by 30.5 per cent and paybill by 31.4 per cent.
- introducing an explicit discounting policy of between 20 per cent and 80 per cent for all executive and senior manager salaries against the commercial sector.
- freezing the pay of all executive and management board salaries and removed discretionary bonus entitlements for executives and senior managers.
- freezing the pay of all other senior managers between 2009 and 2012.
- removing the benefits of private health insurance in 2011 and of a car allowance in 2012 for joining senior managers.

BBC Executive  
June 2013



National Audit Office

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British Broadcasting Corporation

# Severance payments and wider benefits for senior BBC managers

Report by the Comptroller and Auditor General

This report has been prepared at the request of the BBC Trust under Clause 79(3) of the Broadcasting Agreement between the Secretary of State for Culture, Media & Sport and the BBC dated July 2006

Amyas Morse  
Comptroller and Auditor General  
National Audit Office

20 June 2013

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This study examined whether the BBC's severance payments to departing senior managers and its benefits package for existing senior managers represent value for money.

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This report can be found on the National Audit Office website at [www.nao.org.uk/bbc-managers](http://www.nao.org.uk/bbc-managers)

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## Key facts

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**£25m**

cost of severance payments to senior BBC managers in the three years to December 2012

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**150**

senior managers who received severance payments in the three years to December 2012

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**436**

senior managers working at the BBC at February 2013

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**228**

senior managers who left the BBC in the three years to December 2012

**£35 million**

BBC estimate of the pay bill saving from reducing senior manager numbers in the three years to December 2012. Further savings will accrue over time

**£164,200**

average severance payment for senior managers in the three years to December 2012

**£3.2 million**

payments in lieu of notice for departing senior managers, from a sample of 60 cases we examined, in the three years to December 2012

## Summary

**1** The BBC employs around 19,600 staff, including 436 senior managers. Its total annual staff costs are nearly £1 billion. In recent years, as part of its wider efforts to cut costs, the BBC has reduced the number of senior managers it employs. It has also taken steps to reduce associated salary costs. These steps include removing pension supplements for existing senior managers and withdrawing some other benefits for new senior managers. It has also frozen executive directors' pay since 2009 and removed their bonus entitlements. The BBC estimates that by 31 March 2013, cumulative savings from senior manager redundancies in the three years to December 2012 totalled £35 million.

**2** BBC managers may be entitled to severance payments when they leave, depending on the circumstances of their departure. There have been several high profile severance payments to senior BBC managers, notably the former Director General, George Entwistle, in November 2012. In its review of the former Director General's severance package, the Committee of Public Accounts asked the National Audit Office to carry out a review of severance payments and wider benefits for senior BBC managers.<sup>1</sup> The BBC Trust also asked the National Audit Office to carry out a review of severance payments.

**3** In April 2013, the BBC's newly appointed Director General, Tony Hall, announced a proposal to cap redundancy payments to departing staff at the lower of £150,000 or 12 months' salary. The BBC has made a range of other changes to its existing severance policy to try and reduce the costs.

**4** This report examines the BBC's existing approach to setting severance conditions and wider benefits for its senior managers, and how it applied its policies in practice. The term 'severance' in this report includes redundancy payments, salary in lieu of notice and other discretionary payments. Our findings and conclusions are based on:

- reviewing BBC policy to identify what senior managers are entitled to and comparing this with benchmarks in the public and private sector;
- interviewing BBC staff involved in setting policy and making decisions about severance and wider benefits for senior managers; and
- examining severance payments in a selected sample of 60 cases in the three years to December 2012 and a separate selected sample of 60 benefit payments to identify how the BBC has applied policies in practice.

<sup>1</sup> HC Committee of Public Accounts, *British Broadcasting Corporation: Off-payroll contracting and severance package for the Director General*, Twenty-second Report of Session 2012-13, HC 774, December 2012.

Basic salary and performance-related pay were outside the scope of our review. Appendices One and Two provide further information about our audit approach and evidence base.

## Key findings

### On reducing senior manager numbers

**5 Between August 2009 and December 2011, the BBC exceeded its target of a 20 per cent cut to the number of senior managers it employs.** By December 2011, the BBC had reduced senior manager numbers by 24 per cent, to 484. By February 2013, it had further reduced senior manager numbers (including executive directors) to 436 (paragraphs 1.4 and 2.3).<sup>2</sup>

**6 Two-thirds of all senior managers who left the BBC between 1 April 2005 and 31 March 2013 received a severance payment at a cost, after adjusting for inflation, of £60 million.** The BBC estimates that as at 31 March 2013, it had saved £188 million since 2005, after adjusting for inflation, through senior manager redundancies. This includes a £35 million saving during the three years to December 2012. The savings are recurring and will therefore increase over time (paragraphs 1.2, 2.2 and 2.4).

### On redundancy entitlements

**7 The BBC reduced redundancy entitlements for new senior managers in 2008, but the impact on overall redundancy entitlements has been limited so far and will take some time to materialise:**

- The BBC reduced the maximum redundancy payment for senior managers who joined after 1 October 2008 from 24 months' to 12 months' salary. Senior managers who joined the BBC before October 2008 kept their entitlement to up to 24 months' salary, depending on length of service. This exceeds the maximum entitlement of 21 months' salary under the civil service redundancy scheme, and has been applied to salaries that are significantly higher than those in the civil service (Figure 4 and paragraph 1.8).
- The BBC told us it had reduced entitlements for new managers to try to reduce the cost of its redundancy programme. However, the majority (367 of the BBC's 436 senior BBC managers at February 2013) retained existing entitlements to up to 24 months' salary. The impact of the change to entitlements has therefore been limited so far (Figure 3).

<sup>2</sup> For the purpose of calculating the reduction, the figures include eight senior managers who did not leave the BBC but were regraded to more junior levels.



**8 The BBC announced in April 2013 that it is consulting staff on capping redundancy payments at the lower of £150,000 or 12 months' salary.** The BBC estimates that the cap would reduce the entitlement of 167 senior managers if they were made redundant. The cap will not apply to up to around 15 senior managers where the BBC has already made commitments on forthcoming redundancy. The proposed cap was informed by benchmarking studies of severance policies in the public and private sectors that the BBC commissioned in December 2012. The BBC chose a cap of £150,000 to align its redundancy terms more closely with civil service policy. Civil service policy is to cap salary at £149,820 for the purposes of calculating redundancy entitlements of up to 21 months' salary. The BBC therefore applies a lower cap than the civil service (paragraph 1.7 and Figure 4).

#### On pay in lieu of notice

**9 Senior manager entitlements to pay in lieu of notice tend to exceed the terms available within the senior civil service.** Senior BBC managers' employment contracts include a provision that entitles the BBC to terminate their employment with immediate effect by paying salary in lieu of notice. Executive directors were, until April 2013, entitled to 12 months' notice. Since then, they have been, like other senior BBC managers, entitled to six months' notice. In comparison, the typical notice period in the civil service for senior managers is usually set between three and six months. The notice periods for senior BBC managers are within the limits suggested in guidance for private sector bodies; such guidance recommends a maximum of 12 months' notice period for directors<sup>3</sup> (paragraph 2.8).

**10 In 14 of the 60 cases we reviewed, the BBC paid senior managers more salary in lieu of notice than would be provided by their contractual entitlement, costing licence fee payers at least £1 million.** We found that 36 of the 60 senior managers in our sample who left in the three years to December 2012 received salary in lieu of notice. BBC policy has been that pay in lieu of notice should be reduced in line with how much of their notice period departing managers work, with managers who work all their notice receiving none. We found that 14 senior managers had been paid more than their entitlement, at a total cost of more than £1 million. The BBC told us that these additional payments were generally made to reach mutually acceptable terms and, in some cases, to recognise the individual's contribution to the BBC. The BBC has changed its policy so that it pays salary in lieu of notice only in exceptional circumstances (paragraph 2.10).

**11 Until recently, the BBC has not reduced severance payments for senior managers who find alternative employment during their notice period.** We identified 2 cases in our sample of 60 where the BBC knew that departing senior managers had secured future employment before they left, but still paid them their maximum pay in lieu of notice. These payments totalled £425,000 and were in addition to redundancy and other severance payments of £550,000. Recommended practice for large companies making severance payments includes paying salary in lieu of notice in monthly instalments and stopping payments if staff find alternative employment.<sup>4</sup> Until recently, the BBC did not follow this approach. It has revised its policy so that staff will be expected to work their notice (paragraph 2.11).

On governance arrangements

**12 Decisions to award severance payments that exceed contractual entitlements have, until recently, been subject to insufficient challenge and oversight:**

- In 5 of our 60 sample cases, the BBC made unusual payments that were subject to little central assessment of the potential risks to the BBC of making them. These included committing to purchase £60,000 worth of consultancy services and, in another case, paying £49,000 for training, Information Technology equipment and associated tax and national insurance. These awards did not necessarily result in higher costs for the BBC but involve potential reputational risk. In the civil service, such payments would be considered novel and contentious and would require approval from HM Treasury (paragraphs 2.12 and 2.19).
- Until January 2013, divisional directors had delegated authority to approve individual severance payments of up to £500,000. From May 2011, the BBC required consensual termination payments exceeding £75,000 to be referred to the BBC's Director of Human Resources. Since January 2013, all severance payments for senior BBC managers exceeding £150,000 have had to be approved by its senior management remuneration committee (paragraph 1.13).

**13 The BBC applies confidentiality clauses to prevent senior managers from revealing details about the circumstances of their departure or their severance payments.** Senior BBC managers have clauses in their employment contracts prohibiting them from disclosing details about severance payments. In addition, all consensual termination agreements include clauses that prohibit departing managers from revealing any details about the circumstances or terms of their departure (paragraph 2.16).

<sup>4</sup> See, for example, Institutional Voting Information Service, *Best practice on executive contracts and severance – A joint statement by the Association of British Insurers and The National Association of Pension Funds*, 2008. Available at: [www.ivis.co.uk/ExecutiveContractsAndSeverance.aspx](http://www.ivis.co.uk/ExecutiveContractsAndSeverance.aspx)

## On wider benefits

**14 The BBC removed some benefits for new managers with the aim of bringing senior managers into line with other staff; however, it will take years before existing entitlements disappear.** The BBC removed private medical cover for new senior managers in August 2011. It did this in response to concerns that it was unfair that more junior staff did not get this benefit. The BBC also removed car allowances for new senior managers, in April 2012. The BBC did not carry out a cost–benefit analysis of removing these benefits from existing managers. The BBC told us that withdrawing these contractual entitlements from existing managers could have resulted in legal challenges (paragraph 2.25).

## On the Director General’s severance payment by the BBC Trust

**15 The BBC Trust paid the former BBC Director General, George Entwistle, £475,000 after announcing his resignation.** When the Trust announced the former Director General’s resignation on 10 November 2012, it agreed to pay him severance equivalent to 12 months’ salary and benefits. The Trust set his last day of employment in his compromise agreement as 30 November 2012 and paid his salary until this date. This meant that he received three weeks’ salary, totalling around £25,000 after the Trust announced his resignation. This was not part of his severance payment of £450,000 (paragraphs 2.22 and 2.23).

**16 The BBC Trust has reduced the contractual notice period for the Director General from 12 months to six months.** The Trust paid the former Director General, George Entwistle, a severance payment equivalent to 12 months’ notice on the grounds that this was the contractual notice period it had given him. The Trust reduced this to six months in its contract with the new Director General, Tony Hall, who took up post in April 2013 (paragraphs 2.22 and 2.24).

## Conclusion on value for money

**17** The savings the BBC has made by reducing senior manager numbers exceed the cost of severance payments. However, the BBC has breached its own policies on severance too often without good reason. This has resulted in payments that have not served the best interests of licence fee payers. Weak governance arrangements have led to payments that exceeded contractual entitlements and put public trust at risk. The severance payments for senior BBC managers have, therefore, provided poor value for money for licence fee payers.

**18** In April 2013, the BBC proposed capping redundancy payments at the lower of £150,000 or 12 months' salary. This cap would represent the most significant change to its severance policy in recent years, and it is well below the maximum that applies to senior civil servants. However, this proposal comes more than two years after the civil service introduced a cap on severance payments and towards the end of the BBC's programme to reduce senior manager numbers. It is therefore difficult to avoid the conclusion that, until recently, the BBC has not achieved the right balance between the compensation packages of its senior managers and the cost-effective use of licence fee resources.

## **Recommendations**

- a** **The BBC should include within its remuneration strategy the principles that will guide decisions on severance entitlements.** The BBC has put forward proposals for individual elements of its severance policy at different times, the most recent being to cap redundancy payments at £150,000. Its strategy should reflect the need to minimise cost and increase flexibility but also to manage the impact of departures on the business; the need to meet the reasonable expectations of current and future senior managers; the need to keep pace with changing public and private sector practices; and when changes have been made, to what extent existing managers should be allowed to retain existing entitlements.
- b** **The BBC should ensure that its revised severance policies are communicated clearly and applied consistently.** Previous experience shows that the BBC has not adopted a consistent approach to determining severance payments, and there has been limited challenge and oversight of decisions. If revised policies are to achieve their intended impact, the BBC will need to apply them consistently and transparently.
- c** **The BBC should apply increased scrutiny to severance payments that differ from standard entitlements.** We found cases where the BBC had agreed to unusual payments and commitments, such as purchasing consultancy advice from a departing senior manager. Such payments, even if they appear to offer value for money in isolation, can create reputational risks and set inappropriate precedents.

# Part One

## Introduction

**1.1** This part describes:

- why the BBC is reducing senior manager numbers;
- the BBC's senior management structure;
- senior managers' entitlements to 'severance' and 'wider benefits';
- roles and responsibilities for awarding severance and benefits; and
- the scope of this report.

### Reducing senior manager numbers

**1.2** In 2007, following the television licence fee settlement negotiated between the BBC and the Department for Culture, Media & Sport (the Department), the BBC Trust asked the BBC Executive to make annual savings of 3 per cent against spending in the period 2007-08 to 2012-13. As part of this programme, the BBC closed posts, made staff (including senior managers) redundant and removed some staff allowances.<sup>5</sup> From 2009, it also froze pay for executive directors and removed their bonuses. In discussion with the BBC Trust, the BBC set targets to reduce senior manager numbers by 20 per cent and the associated salary pay bill by 25 per cent between August 2009 and December 2011. The BBC estimates that by 31 March 2013, senior manager redundancies in the three years to December 2012 had led to cumulative savings of £35 million. The saving is recurring and will therefore increase over time.

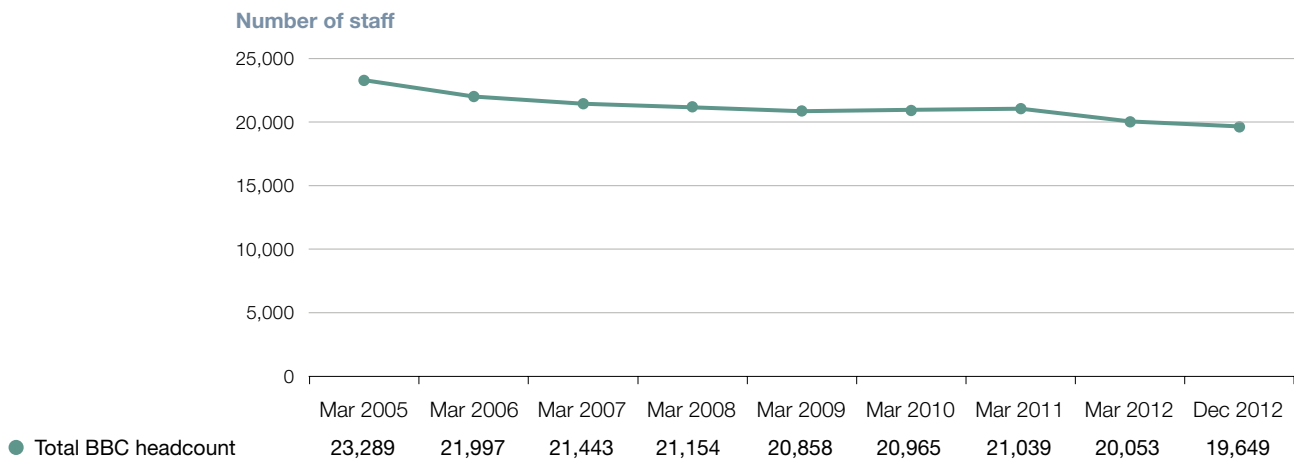
**1.3** In 2010, the Department froze the licence fee until 2016-17 and placed new obligations on the BBC, including funding the World Service. In response, the BBC developed its Delivering Quality First strategy to achieve annual savings of £700 million by 2016-17. To help meet this target, the BBC developed plans to further reduce staff numbers by more than 2,000, with a particular focus on reducing the number of senior managers. As **Figure 1** overleaf shows, the BBC has made progress in reducing staff numbers, from around 23,300 in March 2005 to just over 19,600 in December 2012. The latest available data shows that the BBC's annual staff costs are nearly £1 billion.

<sup>5</sup> Comptroller and Auditor General, *British Broadcasting Corporation: The BBC's efficiency programme*, National Audit Office, November 2011.

**Figure 1**

## BBC staff numbers, 2005 to 2012

Between 2005 and 2012, the BBC reduced staff numbers from around 23,300 to 19,600



Source: National Audit Office based on BBC data

## The BBC's senior management structure

**1.4** In February 2013, the BBC had 436 senior managers:

- **Five executive directors**<sup>6</sup> These are the most senior managers within the BBC and include the Director General. They sit on the BBC's executive board alongside four non-executive directors and are collectively responsible for the management and delivery of BBC services. In April 2013, Tony Hall took up the post of Director General.
- **118 'SM1' managers** These are the second most senior managers in the BBC and hold posts such as departmental director.
- **313 'SM2' managers** These are the third tier of managers within the BBC and hold posts such as head of department.

<sup>6</sup> The BBC has seven executive director posts but in February 2013, two were vacant. These posts were subsequently filled.

**1.5** The two divisions with the largest number of senior managers are News Group, and Vision (**Figure 2**). The biggest reduction in senior manager numbers has been in the Corporate and the Finance and Business divisions, with 62 senior managers leaving these divisions in the three years to December 2012.

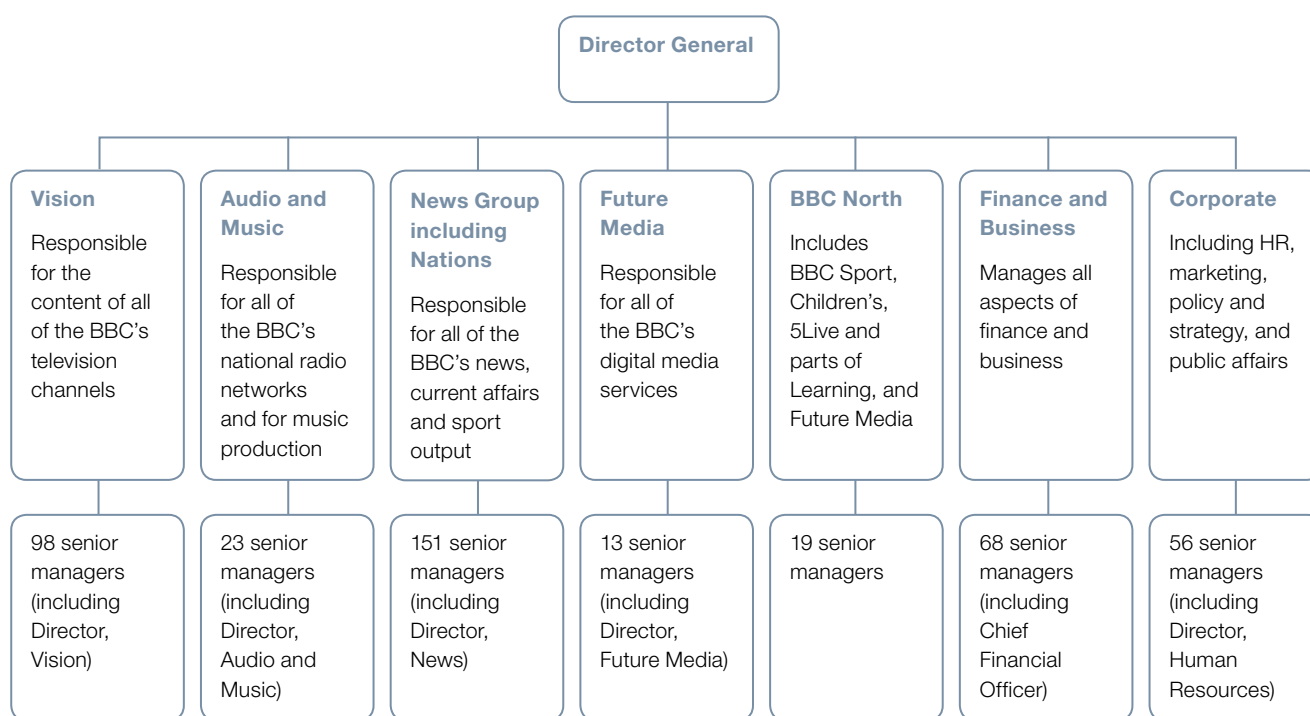
### Entitlements to severance

**1.6** Employers make ‘severance’ payments to employees who are made redundant or, by mutual agreement, agree to leave. Employees who are made redundant have a statutory right to redundancy pay if they have worked for their current employer for at least two years.<sup>7</sup> They may be entitled to other payments and benefits, depending on their employment contract and their employer’s severance policy.

## Figure 2

The BBC’s organisational structure, February 2013

The BBC has seven main divisions that, with the exception of BBC North, are each headed by an executive director



### NOTE

<sup>1</sup> There are seven senior managers at the BBC Trust.

Source: The BBC

<sup>7</sup> See Part XI of the Employment Rights Act 1996. Available at: [www.legislation.gov.uk/ukpga/1996/18/section/162](http://www.legislation.gov.uk/ukpga/1996/18/section/162)

**1.7** The three main elements of the BBC's severance policy are redundancy; pay in lieu of notice; and other discretionary payments. Entitlements in place in December 2012, and changes that the BBC has recently made or proposed to its severance policy, are summarised in **Figure 3**. These changes were informed by benchmarking studies that it commissioned in December 2012 from the consultants PricewaterhouseCoopers, Deloitte and Towers Watson. These studies indicated that the BBC's notice periods did not exceed the maximum found in the private sector, but were longer than those found in the public sector. The findings on redundancy policies suggested that, outside the civil service, there is considerable variation in practices within the public and private sectors.

### Figure 3 BBC policy on severance

**There are three main categories of severance payments: redundancy, pay in lieu of notice and other discretionary payments.**

#### Entitlement

##### Redundancy

- All BBC staff with at least two years' continuous service are entitled to one month's pay for each year of service. The maximum redundancy payment was capped at 12 months' salary for senior managers who joined the BBC after 1 October 2008. The maximum that can be accrued by the 367 senior managers who joined the BBC before October 2008 is 24 months' pay.

##### Pay in lieu of notice

- All senior BBC managers have a provision in their employment contract that entitles the BBC to terminate their employment with immediate effect by paying their basic salary in lieu of outstanding notice periods. Senior managers, including executive directors, are entitled to six months' notice. The BBC also pays salary in lieu of untaken leave. BBC policy has been that pay in lieu of notice should be reduced in line with how much of their notice period departing managers work; managers who work all their notice should receive none.

##### Other discretionary payments

- The BBC does not have a written policy on discretionary severance payments, such as funding for training on departure. Instead, these are considered on a case-by-case basis. In situations where the BBC is negotiating a 'compromise agreement', BBC policy is to contribute to the cost of independent legal advice for the departing senior manager. Employees cannot waive contractual entitlements through compromise agreements unless they have received independent advice.

#### Recent and proposed changes

- In April 2013 the BBC announced that it is consulting senior managers on its proposal to cap redundancy payments at the lower of £150,000 or 12 months' salary. This could affect 167 senior managers if they were made redundant. Under these proposals the BBC will honour around 15 individual payments in excess of £150,000 to which it has already committed itself and which it intends to confirm before September 2013.
- In April 2013, the BBC reduced notice periods for executive directors from 12 to 6 months. It also now requires senior managers to work their notice and waive it if they find alternative employment during their notice period, unless they are leaving to work for a competitor, in which case they will go on 'gardening leave' (and during this period will continue to receive entitlements to pension contributions, car allowance and private medical cover). In exceptional circumstances where senior managers are put on restricted duties, the BBC will continue to pay their monthly salary, but will stop payments if managers choose to take up alternative employment.



**1.8** The changes to the BBC's severance package follow a series of other changes over the last decade (**Figure 4**). A key change was made in 2008, when the BBC reduced the maximum redundancy entitlement for new senior managers from 24 months' pay, based on years of service, to 12 months' pay. The BBC told us it did this to reduce the cost of its redundancy programme. It did not do this for existing senior managers as the BBC concluded that changing contractual entitlements to these benefits could result in legal challenges. The result of the successive changes is that entitlements within the BBC vary according to when individual senior managers joined.

### **Figure 4** Changes to severance terms and conditions

**The BBC has reformed severance terms and conditions over time as it has recognised the need to reduce potential future payments.**

<b>When it changed</b>	<b>BBC policy</b>	<b>Civil service policy</b>
Original policy	Maximum redundancy of 24 months' salary. Notice period of 12 months for executive directors and 6 months for other senior managers	Maximum voluntary redundancy of 24 months' salary (36 months for compulsory redundancies)
March 2002	Maximum redundancy for all executive board members reduced from 24 months' to 12 months' salary	
October 2008	Maximum redundancy for new senior managers reduced from 24 months' to 12 months' salary (unchanged for existing senior managers)	
December 2010		Voluntary redundancy limited to 21 months' salary (12 months for compulsory redundancy). Salaries capped at £149,820 for the purpose of calculating redundancy, with a maximum redundancy entitlement of 21 months' salary
April 2011	Pension augmentation (so departing staff could draw unreduced pension from aged 50) withdrawn	
April 2013	Notice periods for executive directors reduced from 12 months to 6 months	
April 2013	Proposal to cap severance payments at £150,000 (or 12 months' salary for senior managers earning below £150,000)	

#### **NOTE**

1 The cap for civil service salary is reviewed annually; it was £149,820 during 2012-13.

Source: National Audit Office based on an analysis of BBC and civil service policy

## Entitlements to ‘wider benefits’

**1.9** The Committee of Public Accounts asked us to consider the ‘wider benefits’ paid to senior BBC managers as part of their ongoing remuneration. Employers generally give senior managers reward packages that include wider benefits in addition to their basic salary. Wider benefits in the public sector typically include pensions, sick pay and enhanced maternity or paternity pay. In the private sector, senior managers may also get private health cover, company cars, share options and other perks. Offering wider benefits can help attract and retain skilled staff in competitive labour markets. However, they are an additional cost for employers. It is therefore important that employers have:

- a clear rationale for each benefit;
- a good understanding of the value that senior managers place on the benefits; and
- a regular review process to check that benefits remain appropriate.

**1.10** Some benefits for senior BBC managers are available to all BBC staff. These include sick pay, enhanced maternity and paternity cover, death-in-service benefits and optional benefits that can be bought through ‘salary sacrifice’, such as child-care vouchers. These are comparable to benefits packages in other parts of the public sector. During 2011 and 2012, the BBC reviewed its benefits policy. This resulted in the BBC withdrawing pension supplements in April 2011. Until then, the BBC had made additional payments to higher-paid staff to offset the impact of an annual cap on pension contributions. This cap was introduced by HM Revenue & Customs for staff who joined occupational pension schemes after June 1989.<sup>8</sup> The BBC also made changes to its policy on providing private healthcare and car allowances for senior managers:

- **Private healthcare** Senior managers and executive directors who were in post before August 2011 are eligible for private healthcare for themselves and their families. In February 2013, 348 senior managers received this at an annual cost to the BBC of £691,700. Managers who joined on or after 1 August 2011 are not entitled to this benefit. Instead, like all other BBC employees, they can purchase private medical cover at preferential rates negotiated by the BBC.
- **Car allowances** Senior managers and executive directors who were in post before April 2012 are eligible for an annual car allowance of £4,800, £7,800 or £12,900, depending on their grade. Managers can opt to receive this as cash or, depending on which BBC pension scheme they are in, as an additional voluntary contribution to their pension. In February 2013, 399 senior managers received this at an annual cost to the BBC of £2.3 million.

<sup>8</sup> From 6 April 2006, HM Revenue & Customs replaced the earning cap with an individual lifetime allowance and annual allowance limits for tax relief. However, many final salary pension schemes, including that of the BBC, maintained the cap to limit the size of future payments.

## Roles and responsibilities for awarding severance and wider benefits

**1.11** **Figure 5** overleaf summarises the roles and responsibilities for determining severance and wider benefits for senior BBC managers. The BBC Trust is the governing body of the BBC and is responsible for the stewardship of licence fee revenue. It sets the Director General's entitlement to severance and wider benefits.<sup>9</sup> It also approves the remuneration strategy for members of the BBC's executive board. The BBC Trust plays no part in approving individual remuneration or severance packages, except those of the Director General. There have, however, been instances where the BBC Trust has been kept informed of redundancy plans, including proposed severance payments for individual executive directors.

**1.12** Responsibility for authorising individual payments depends on the seniority of the employee and the size of the payment. The executive remuneration committee is responsible for approving severance and benefits policy for executive directors other than the Director General. It is also responsible for checking compliance with policies and ensuring that remuneration strategies across the BBC are effective. The committee is chaired by a non-executive director and has three other non-executive directors.

**1.13** Since January 2013, the BBC has required severance payments of over £150,000 to be approved by a senior management remuneration committee. Prior to this, payments below £500,000 were approved by divisional directors. Payments above this required additional approval from the BBC's Director of Human Resources and Chief Financial Officer. In May 2011, the BBC changed its processes for compromise agreements. As part of this, it included a requirement for the Director of Human Resources to sign off compromise agreements if the proposed payment exceeded £75,000.

## Scope of this report

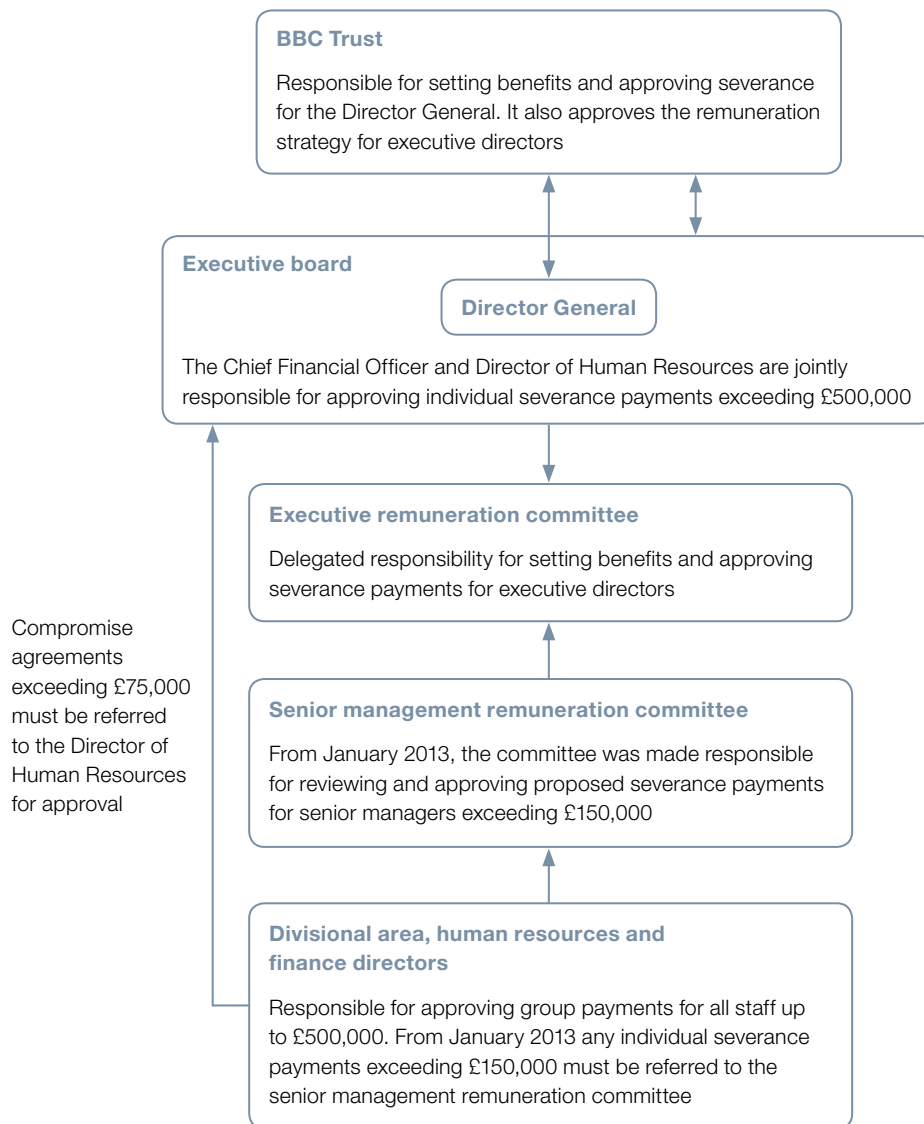
**1.14** This report examines whether the BBC's approach to severance payments and wider benefits for its senior managers has served the best interests of licence fee payers. We prepared it in response to a request by the Committee of Public Accounts and others to review the severance packages and wider benefits awarded to the BBC's former Director General, George Entwistle, and other senior BBC managers.<sup>10</sup>

<sup>9</sup> The Trust's specific responsibility is to set the employment terms for the chairman of the executive board, who since the Trust's creation has been the Director General.

<sup>10</sup> HC Committee of Public Accounts, *British Broadcasting Corporation: Off-payroll contracting and severance package for the Director General*, Twenty-second Report of Session 2012-13, HC 774, December 2012.

**Figure 5**  
Roles and responsibilities, April 2013

There is a structure in place for determining severance and benefits for senior BBC managers



**NOTES**

- 1 There are additional approval arrangements for group restructuring and multiple redundancies costing over £2 million. The approvals in this figure are for individual payments.
- 2 The senior management remuneration committee was created in 2012 to examine the remuneration of members of the BBC direction group. The BBC direction group was disbanded in September 2012.

Source: National Audit Office review of BBC policy

**1.15** We examined the BBC's policy and its underlying rationale and reviewed a sample of cases to understand how the BBC had applied its policy in practice. We also interviewed staff involved in setting policy and making decisions about severance and wider benefits. To comply with data protection law, the BBC removed some personal information, including staff names, from the case files we examined. Our case studies in Appendix Three are therefore anonymised, except for those relating to executive directors, whose severance payments are published in the BBC's annual report and accounts. Appendices One and Two provide more information about how we collected and interpreted the evidence.

**1.16** Basic pay and variable rewards such as bonuses for senior managers were outside the scope of our report. Severance and benefits for BBC staff who were not senior managers were also excluded from our review. We did not examine severance and benefits for staff in commercial subsidiaries such as BBC Worldwide Limited because we do not have rights of access to audit these organisations.

## Part Two

### Severance and wider benefits

**2.1** This part examines:

- the number and cost of severance payments for senior BBC managers;
- the BBC's policy on severance and how it has been applied in practice;
- governance arrangements; and
- wider benefits.

#### Severance payments for senior managers

**2.2** Between April 2005 and March 2013, the BBC awarded severance payments totalling £369 million to 7,500 staff.<sup>11</sup> This included payments totalling £60 million to 401 senior BBC managers.<sup>12</sup> The BBC plans to further reduce staff numbers, and the number of senior managers it employs, to help achieve annual savings of £700 million by 2016-17.

**2.3** The BBC, in discussion with the BBC Trust, set targets to reduce the number of senior BBC managers by 20 per cent and associated salary costs by 25 per cent between August 2009 and December 2011. By the end of 2011, the BBC had met its targets, having reduced senior manager numbers by 24 per cent to 484. It had also reduced salary costs by 27 per cent, a £21 million annual reduction. The BBC estimates that savings from making senior managers redundant generally start to exceed severance costs after 12 to 18 months.

**2.4** We found that 67 per cent of the 602 senior managers who left the BBC between April 2005 and March 2013 received a severance payment (**Figure 6**). Total annual spend on severance, after adjusting for inflation, peaked at £9.5 million in 2011-12, when the BBC implemented its plans to reduce senior manager numbers. The BBC estimates that between April 2005, and March 2013, senior manager redundancies saved £188 million (after adjusting for inflation).<sup>13</sup>

<sup>11</sup> Payments adjusted for inflation, to 2012-13, prices, using HM Treasury gross domestic product (GDP) deflators (27 March 2012 update).

<sup>12</sup> Excludes legal fees, pension augmentation and outplacement support, as data for these costs were not available for all years.

<sup>13</sup> These savings do not take into account the cost of new senior manager posts that the BBC created during the period as a result of reorganisations.

**Figure 6**

## Severance payments to senior BBC managers, 2005-06 to 2012-13

The BBC paid £60.5 million in severance payments in 2012-13 prices to 401 senior BBC managers

Financial year(s)	Total number of senior managers at year end	Number of senior managers who left	Number receiving severance payments	Leavers receiving severance payments (%)	Total value of payments (£m)	Average individual payment (£)
2005-06	–	75	46	61	5.9	128,000
2006-07	–	96	72	75	8.7	121,000
2007-08	751	84	54	64	7.7	143,000
2008-09	627	66	46	70	7.6	165,000
2009-10	624	77	43	56	6.3	147,000
2010-11	545	80	53	66	8.1	153,000
2011-12	477	71	52	73	9.5	183,000
2012-13	445	53	35	66	6.7	191,000
<b>2005-06 to 2012-13</b>		<b>602</b>	<b>401</b>	<b>67</b>	<b>60.5</b>	<b>151,000</b>

**NOTES**

- 1 Excludes pension augmentation, legal costs, outplacement, payment for outstanding annual leave and long service payments.
- 2 The total and average values of payments are adjusted for inflation, to 2012-13 prices, using HM Treasury gross domestic product (GDP) deflators (27 March 2012 update).
- 3 Figures prior to 2008-09 include senior managers working for the BBC's commercial subsidiaries. Until that point, the BBC did not report the number of senior managers working in public service broadcasting separately from those working in its commercial subsidiaries.
- 4 Average individual payments are based on rounded figures.
- 5 The BBC did not routinely publish senior manager numbers before 2007-08 and so comparable data are not available for earlier years.

Source: National Audit Office using BBC data

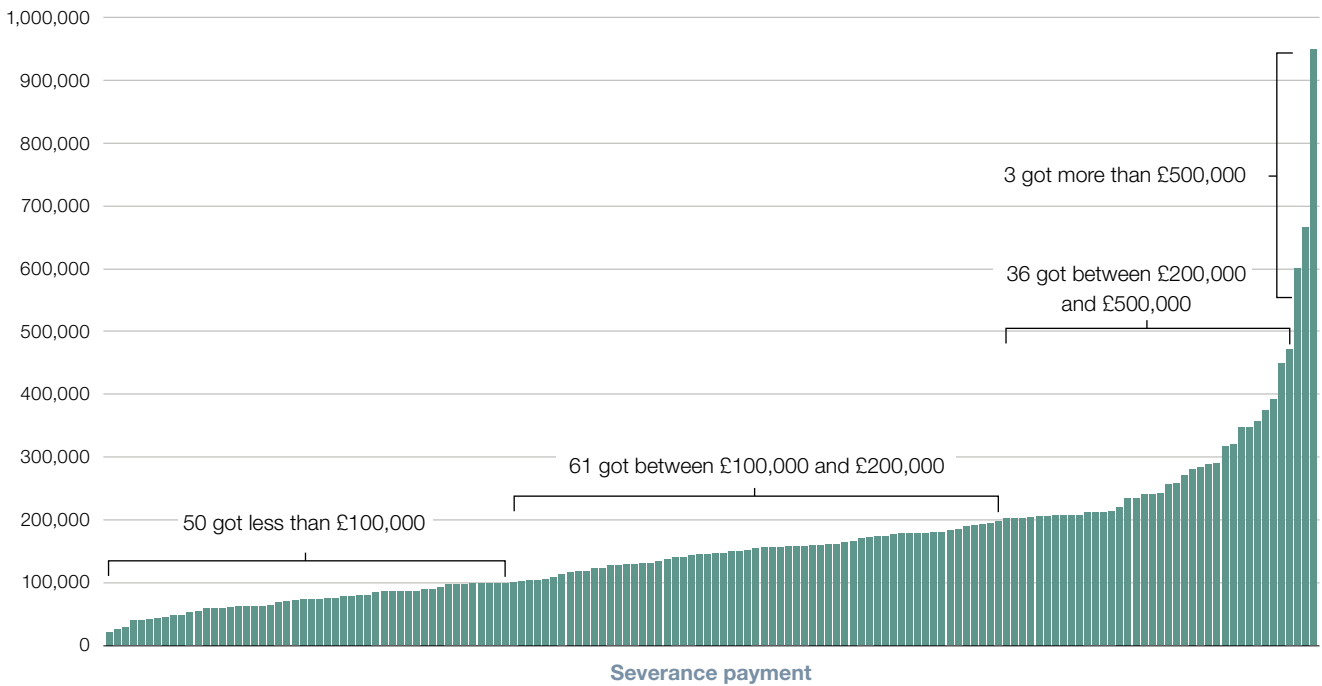
**2.5** We examined a sample of 60 severance cases in the three years to December 2012. During this period, 228 senior managers left the BBC and 150 received severance payments. The total cost of severance payments during the period was £25 million, with an average individual payment of £164,200 in the three years to December 2012.<sup>14</sup> Sixty-one senior managers who left (41 per cent of all those receiving severance payments) received between £100,000 and £200,000. A further 36 (24 per cent) received between £200,000 and £500,000 (**Figure 7** overleaf). The top ten payments accounted for 20 per cent of the BBC's total spend on severance for senior managers during the period (**Figure 8** on page 23).

<sup>14</sup> The average is based on unrounded data.

**Figure 7**  
Individual severance payments to senior BBC managers

The majority of termination payments were between £50,000 and £250,000 during the three years to December 2012

**Termination payments (£)**



**NOTE**

1 Excludes pension augmentation, legal costs, outplacement costs, payment for outstanding annual leave and long service payments.

Source: National Audit Office analysis of BBC data



**Figure 8**

## Top ten payments in the three years to December 2012

The top ten payments accounted for 20 per cent of the BBC's total spend on severance for senior managers

Role	Severance payments (£)	Pension augmentation (£)	Other (£)	Years of service
Deputy Director General	949,000	0	0	31
Departmental director	600,000	266,300	0	25
Chief Operating Officer	666,400	0	14,000	17
Controller	471,700	0	5,000	31
Director General	450,000	0	20,300	23
Departmental director	392,500	0	2,000	2
Departmental director	375,000	0	1,000	29
Project director	356,200	0	0	19
Head of department	347,000	600	300	33
Controller	321,000	60,600	0	26
<b>Total</b>	<b>4,928,800</b>	<b>327,500</b>	<b>42,600</b>	

**NOTES**

- 1 The severance payment includes redundancy, consensual termination payments and payments in lieu of notice, depending on the agreement made with the departing senior manager. It excludes long service awards and payment for outstanding annual leave.
- 2 'Other' includes legal fees, outplacement services and private healthcare, depending on the agreement made with the departing senior manager.

Source: National Audit Office analysis of BBC data

**BBC policy as applied to severance**

**2.6** Severance payments should be based on an assessment of whether departing employees are entitled to compensation and, if so, how much. We examined how the BBC has applied its severance policy in the three years to December 2012. This review covered:

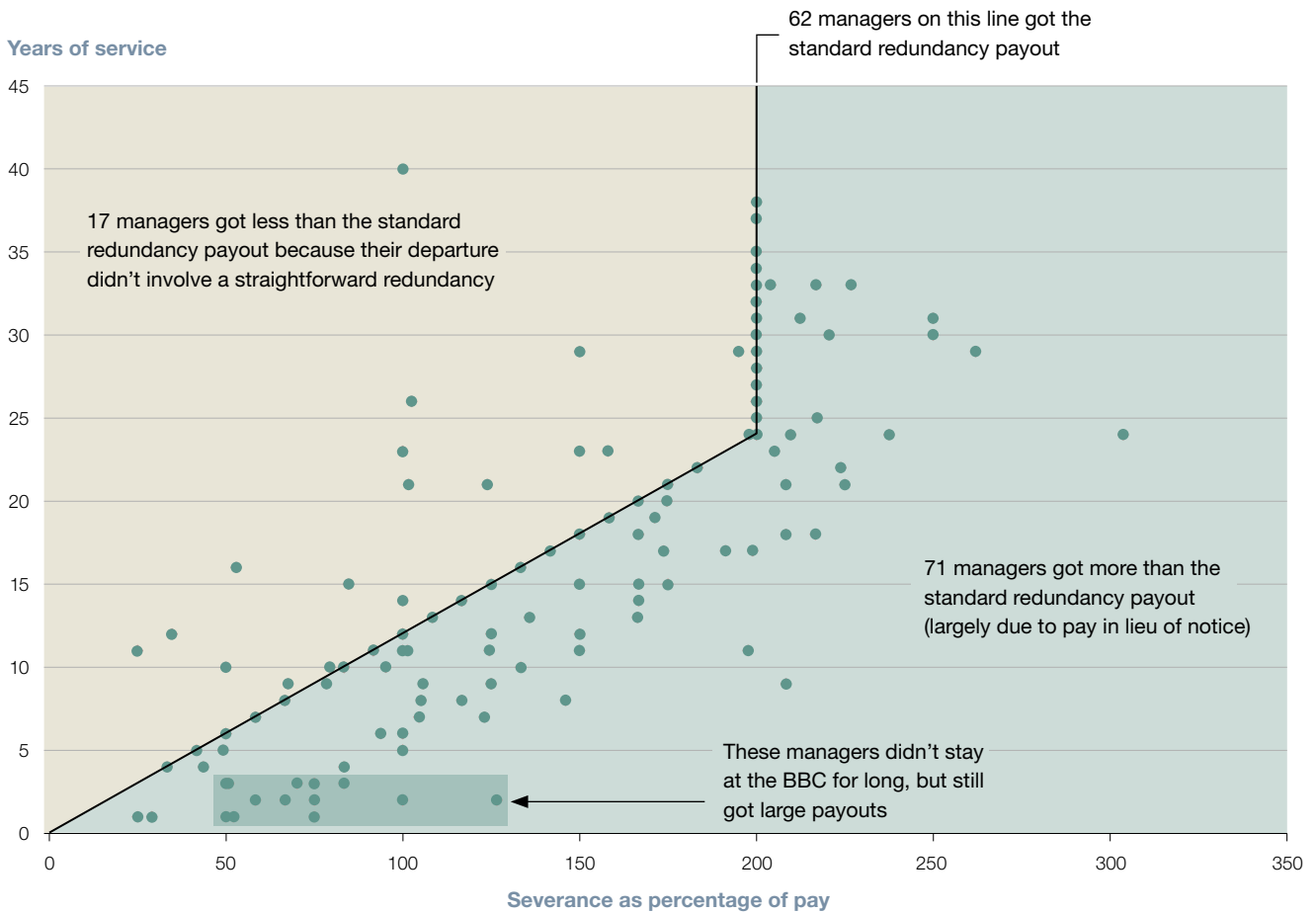
- redundancy;
- pay in lieu of notice; and
- discretionary payments.

**2.7** We found that 71 of the 150 senior BBC managers who received severance payments in the three years to December 2012 got more than the standard redundancy payment (Figure 9). This was largely due to being paid salary in lieu of notice, or, in a smaller number of cases, additional discretionary compensation for loss of office. Seventeen received less than the standard policy; reasons included individuals volunteering for redundancy and agreeing to a reduced payment. The remaining 62 received the standard redundancy payment with no extra payments in lieu of notice.

**Figure 9**

The relationship between length of service and severance in the three years to December 2012

We found a large number of senior managers received more than the standard redundancy payment as a percentage of annual salary



**NOTES**

- 1 The standard entitlement, shown by the solid black line, is one month's severance payment for each full year of service, capped at 24 months for senior managers and 12 months for executive directors.
- 2 There are fewer than 150 data points visible on the diagram as some points represent more than one case.

Source: National Audit Office using BBC data

**2.8** BBC policy is to pay senior managers salary in lieu of notice if it wants to secure a quick departure before their contractual notice period ends. Senior managers who get pay in lieu of notice are not entitled to pension contributions or other benefits such as medical cover that they would have received during their notice period had they worked during that period. Until April 2013, the standard notice period was 12 months for executive directors and 6 months for all other senior BBC managers. The BBC reduced the notice period for executive directors in April 2013 to six months. The typical notice period in the civil service for senior managers is usually set between three and six months. Guidance for private sector bodies recommends a maximum of 12 months' notice period for directors.<sup>15</sup>

**2.9** BBC policy has been that pay in lieu of notice should be reduced in line with how much of their notice period departing managers work. Managers who work all their notice should receive none. Pay in lieu of notice can represent a significant part of a severance package (see **Case study 2** in Appendix Three). In the 60 severance cases we sampled, we found that the BBC paid £3.2 million for salary in lieu of notice in the three years to December 2012. The BBC does not centrally monitor spend on salary in lieu of notice.

**2.10** We found from our detailed review of 60 cases that the BBC had not adopted a consistent approach to paying salary in lieu of notice:

- In 25 cases, the BBC had paid the maximum pay in lieu of notice, and partial pay in lieu of notice in a further 11 cases.
- In 14 cases the BBC paid more salary in lieu of notice than the departing managers were contractually entitled to, at a total cost of more than £1 million (see, for example, **Case studies 3 and 5** in Appendix Three). In one of these cases, a manager who left the BBC 14 months after the BBC had notified the individual of their last day of employment received 12 months' pay in lieu of notice (see **Case study 1** in Appendix Three).
- In two cases, the BBC put departing managers on restricted duties (during which time they received pension contributions, car allowances and private medical cover) with full salary for up to two months in addition to six months' pay in lieu of notice – the maximum entitlement in these cases.

<sup>15</sup> Financial Reporting Council, *The UK Corporate Governance Code*, September 2012.

**2.11** It is good practice to place obligations on outgoing senior managers to mitigate the amount of compensation due by seeking other employment.<sup>16</sup> Phasing pay in lieu of notice is an appropriate approach to reducing the cost, where employment contracts provide for this, as payments can be stopped when departing managers find other employment. BBC policy has been to pay salaries in lieu of notice as a lump sum. The BBC changed its policy in early 2013, and it now requires staff to always work their notice, and waive their notice without compensation if they choose to leave early. We found two cases where the BBC had paid the maximum pay in lieu of notice to senior managers who had secured jobs with other employers before they left (see **Case studies 1 and 4** in Appendix Three). These payments totalled £425,000, and were additional to redundancy and other severance payments of £550,000.

### Discretionary payments

**2.12** We identified some unusual discretionary severance payments in our sample review of 60 cases. The reasons for making some of these were not fully recorded. These payments and commitments were:

- A severance payment of £219,000, which was £141,000 more than the individual was entitled to. It included up to £49,000 for training and information technology equipment to improve the individual's skills and career prospects (the BBC originally agreed to pay £30,000, but subsequently agreed to increase it to cover the tax and national insurance due on the payment). Although the rationale for this payment was not documented, the BBC told us it was to obtain ongoing access to the individual's skills and experience.
- An agreement to buy at least £60,000 of consultancy services from the departing manager over two years, at a daily rate of £1,000. The BBC told us it agreed to this as the individual had special expertise that it wanted ongoing access to during a restructuring. In return, the departing manager waived £60,000 of their £205,500 redundancy entitlement, based on 21 years' service, and right to salary in lieu of notice (worth up to £58,700). The individual received a contribution to their pension pot of £66,000, which was their entitlement at the time under the BBC's pension augmentation policy. By waiving salary in lieu of notice, this individual received less than the standard entitlement.

<sup>16</sup> See, for example, Institutional Voting Information Service, *Best Practice On Executive Contracts And Severance – A Joint Statement By The Association Of British Insurers And The National Association Of Pension Funds*, 2008. Available at: [www.ivis.co.uk/ExecutiveContractsAndSeverance.aspx](http://www.ivis.co.uk/ExecutiveContractsAndSeverance.aspx)

- Six months' car allowance worth £2,400 plus an extra two months' pay totalling £12,000. These payments were in addition to £36,700 pay in lieu of notice (based on the individual's part-time hours) and a redundancy payment of £182,000 (based on a full-time equivalent salary). The BBC told us it agreed to these extra payments because it could not implement a restructuring while the individual was in post, and it wanted to secure a quick departure on mutually agreeable terms that avoided any further claims from the individual. Although the individual worked part-time, the redundancy payment was based on a full-time salary. The BBC told us that it based the payment on a full-time salary as shortly before the post was made redundant, the individual had reached agreement with the BBC to move to full-time hours. The redundancy payment based on the individual's part-time hours would have been £145,000.
- Six months' car allowance (worth £3,900) and private healthcare (costing the BBC £1,200). The BBC also agreed to continue paying pension contributions for six months after the leaving date. This was in addition to a payment of £95,000 for six months' salary in lieu of notice. The individual in this case had worked at the BBC for seven months and so was not eligible for a redundancy payment, which requires at least two years' continuous service. The BBC told us it paid the individual's car allowance, healthcare and pension during the notice period, as an exception, to secure a quick exit because the individual's relationship with a key BBC client had broken down.
- An 'ex gratia' payment of £17,600 and four months' extra pay in lieu of notice (£71,000) that exceeded the two months' pay in lieu of notice to which the individual was contractually entitled (taking into account when they were notified). This was in addition to a redundancy payment of £88,100. The BBC agreed to make additional payments after asking the individual to work beyond the initially agreed leaving date to complete a key project. The ex gratia payment related to the successful delivery of the project.

**2.13** The BBC also gives long service awards to departing staff. All staff, except for executive directors, who complete 25 years of service with the BBC are entitled to a payment equivalent to 10 per cent of their annual salary. Staff with at least 21 years' service who resign or are dismissed (other than for reasons of conduct) are entitled to a proportion of this entitlement when they leave. The award ranges from 2 per cent to 8 per cent of annual salary, depending on length of service. Ten of the 60 cases in our sample included long service payments on departure of between £2,300 and £9,800.

## Compromise agreements

**2.14** In some cases, the BBC sets out severance terms in ‘compromise agreements’. Compromise agreements can be appropriate if the reasons for payments are clearly documented and subject to appropriate review. The BBC told us that it uses these agreements in more difficult cases, including redundancy, to record terms and provide certainty that there will be no subsequent legal claims brought by the individual in relation to the matters covered by the compromise agreement. The BBC’s reasons for using these agreements were not fully recorded in some cases.

**2.15** Our sample of 60 severance cases included 31 compromise agreements. We found that the reasons for payments made under compromise agreements, or how they had been calculated, were not always documented:

- In 11 cases the BBC based compromise agreements on its standard redundancy policy. Some of these cases were standard redundancies to which a compromise agreement had been attached, for example to agree the wording of references the BBC would give to senior managers’ future employers or press statements about the circumstances of their departure. In other cases, the BBC stated that it had paid the standard redundancy payment on the grounds that it was ‘custom and practice’ to do so.
- In nine cases the BBC paid less than the standard redundancy entitlement. This tended to occur in cases where the role was not redundant and the individual left for a different reason.
- In 11 cases, the BBC paid more than the standard redundancy entitlement. Additional payments included adding extra years of service when calculating redundancy and paying a senior manager extra in return for their agreement not to work for a competitor for three months. In some cases, it was not clear how the award had been calculated. The total cost of these additional payments was £325,000.

**2.16** For compromise agreements to be legally binding, the individuals involved must have received independent advice about the agreements before signing them.<sup>17</sup> The BBC’s policy therefore requires all employees to take independent advice before signing compromise agreements. The BBC contributes to the cost of legal advice. We found that legal costs in the sample of cases we examined were generally around £300 before value added tax. All the compromise agreements in our sample included a confidentiality clause preventing the departing manager from disclosing any details of their severance package. Senior managers also have clauses in their employment contracts prohibiting them from disclosing details about severance payments.

<sup>17</sup> This is a requirement of the Employment Rights Act 1996 and equivalent provisions under other employment protection legislation.

## Pension augmentation

**2.17** The BBC withdrew pension augmentation for almost all staff in March 2011; an exception was individuals directly affected by the move of London-based posts to Salford. Until March 2011, the BBC had made an additional contribution to pensions for certain eligible staff in receipt of severance payments. Staff members aged 50 or over and with at least two years' pensionable service were entitled to draw their full pension at age 50. In addition, senior managers aged between 45 and 50 could draw their pension, at preferential rates, from age 50. The terms for BBC staff aged at least 50 were comparable to the terms of the civil service compensation scheme. The terms for BBC staff aged between 45 and 50 had been more generous than the civil service scheme.

**2.18** In the three years to December 2012, the BBC augmented the pensions of 38 departing senior managers at a total cost of £3.7 million. The value of payments in our sample of 60 cases ranged from £600 to £316,500 (**Figure 10**). The withdrawal of this policy should have a sizeable impact on the cost of future departures.

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**Figure 10**  
Examples of pension augmentation

**Pension augmentation significantly increased redundancy costs in most cases**

Job title	Annual salary (£)	Severance payment (£)	Pension augmentation (£)	Legal fees (£)	Total cost to the BBC (£)
Head of department	160,000	347,000	600	300	347,900
Controller	160,500	321,000	60,600	0	381,600
Departmental director	300,000	600,000	266,300	0	866,300
Executive editor	78,900	157,700	316,500	0	474,200

**NOTES**

- 1 Severance payment includes redundancy, payment in lieu of notice and additional discretionary payments.
- 2 Payments for untaken annual leave and long service awards are not included.

Source: National Audit Office analysis of BBC data

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## Governance arrangements

**2.19** The BBC's governance arrangements for severance payments are more limited than those found in the civil service. In the civil service, discretionary severance payments must be referred to HM Treasury for approval. By contrast, until January 2013 (paragraph 1.13), the BBC did not have any specific approvals process for these types of payment. Proposals for such payments generally emerged during verbal discussions between the BBC directors involved in negotiating settlements with departing senior managers and the payments could be approved at divisional level.

**2.20** We found some weaknesses in the documentation of authorisations for the severance packages:

- In 9 cases in our sample of 60, the BBC was not able to fully demonstrate that appropriate approval was given.
- In some cases, approval documentation referred to agreements that had been reached between the departing manager and their line manager or another more senior staff member, with limited explanation of the reasons for the terms that had been agreed (including the cases in paragraph 2.12).

## Severance payments made by the BBC Trust

**2.21** The BBC Trust is the governing body of the BBC and is responsible for the stewardship of licence fee revenue. It has its own specific responsibilities for severance payments, but has adopted the BBC's standard severance policy. It appointed the current and previous Director General and is responsible for setting their terms of employment and severance entitlements.

**2.22** In November 2012, the Trust awarded the former Director General, George Entwistle, a severance payment of £450,000, equivalent to his contractual notice period of 12 months. It also agreed to pay for legal and public relations advice related to his departure and his ongoing participation in inquiries, and 12 months' private medical cover. The Committee of Public Accounts reported on these payments in December 2012.<sup>18</sup> The Trust published its response to the Committee's report in January 2013.<sup>19</sup>

<sup>18</sup> HC Committee of Public Accounts, *British Broadcasting Corporation: Off-payroll contracting and severance package for the Director General*, Twenty-second Report of Session 2012-13, HC 774, December 2012.

<sup>19</sup> BBC Trust, *BBC Trust response to the Committee of Public Accounts report on the BBC's off-payroll contracting and the former Director-General's severance package*, January 2013.



**2.23** Our examination of documentation provided to the Committee of Public Accounts by the BBC Trust in November 2012 showed that although the BBC Trust announced George Entwistle's resignation on 10 November 2012, it set his last day of employment as 30 November 2012. This meant that he received three weeks' salary, totalling around £25,000, after the Trust announced his resignation. This was not part of his severance payment of £450,000. The total cost to the BBC of his severance package and cooperation with ongoing inquiries was £486,500 (**Figure 11**).

**2.24** In its contract with the new Director General it appointed in April 2013, the BBC Trust reduced the notice period from 12 months to 6 months.

### Figure 11

#### Final cost of the former Director General's severance package

Payment	Final cost (£)
Payment in lieu of notice; compensation for loss of employment; and payment for cooperating with ongoing inquiries and agreeing not to make any statements that are inconsistent with the Chair of the BBC Trust between 10 November 2012 and the signing of the compromise agreement	450,000
Cost of public relations advice	6,000
Legal costs relating to the compromise agreement	12,000
Payment to BUPA	2,300
<b>Total severance cost</b>	<b>470,300</b>
Costs relating to legal support for cooperating with ongoing inquiries	16,200
<b>Total cost</b>	<b>486,500</b>

#### NOTE

1 Legal and public relations costs include value added tax. Legal costs relating to cooperating with inquiries are for those incurred after George Entwistle's agreed departure date of 30 November 2012.

Source: National Audit Office review of BBC Trust documentation

### Wider benefits

**2.25** As part of its efforts to cut costs, the BBC has reduced the wider benefits included in senior managers' ongoing remuneration. This has included closing private healthcare benefits in 2011 and car allowances in 2012 to new senior managers (**Figure 12** overleaf). Senior managers who were in post before the BBC changed its benefits policy continue to receive these benefits. The BBC did not carry out a cost-benefit analysis of removing these benefits from existing managers. It told us that withdrawing contractual entitlements to these benefits could have resulted in legal challenges and would have been difficult to implement.

**Figure 12**  
BBC wider benefits at December 2012

**As part of its efforts to cut costs, the BBC has reduced the wider benefits included in senior managers' ongoing remuneration**

<b>Benefit</b>	<b>Availability</b>	<b>Comparison with civil service</b>
Private medical cover	The BBC withdrew this benefit for new managers on the basis that it was unfair that only senior staff could receive it. This benefit is now only available to senior managers (and any dependants) who took up post before August 2008. As at February 2013, 348 senior BBC managers received this benefit, with a total annual cost to the BBC of £691,700.	This benefit is not generally available to senior civil servants
Car allowance	This salary supplement is available only to senior managers who took up post before 2012. The policy sets a range of standard allowances: executive directors get £12,900; managers in the SM1 grade get £7,800; and those in the SM2 grade get £4,800. As at February 2013, 399 senior BBC managers were in receipt of car allowances, at an annual cost of £2.3 million.	This benefit is not generally available to senior civil servants
Fuel allowance	As at February 2013, four managers received fuel cards for petrol, costing between £1,900 and £6,600. The BBC told us that these individuals were expected to travel as part of their job.	This benefit is not generally available to senior civil servants
Long service award	The BBC offers a long service payment of 10 per cent of annual salary to staff when they reach 25 years of continuous service with the BBC. Of the 60 senior managers in our sample, 10 received long service awards. The BBC also pays £800 to staff when they reach 40 years of continuous service.	This benefit is not generally available to senior civil servants
Standard BBC benefits	These include pension, enhanced maternity and paternity pay, childcare vouchers through 'salary sacrifice' and life assurance. They are available to all staff.	These benefits are comparable to those provided across the public sector

**NOTES**

- 1 This list of benefits is based on our review of BBC policy. The BBC confirmed that there were no other wider benefits for senior BBC managers.
- 2 Senior managers may also receive payments for work-related expenses; we did not include these as wider benefits.

*Source: National Audit Office based on an analysis of BBC policy and data*

# Appendix One

## Our audit approach

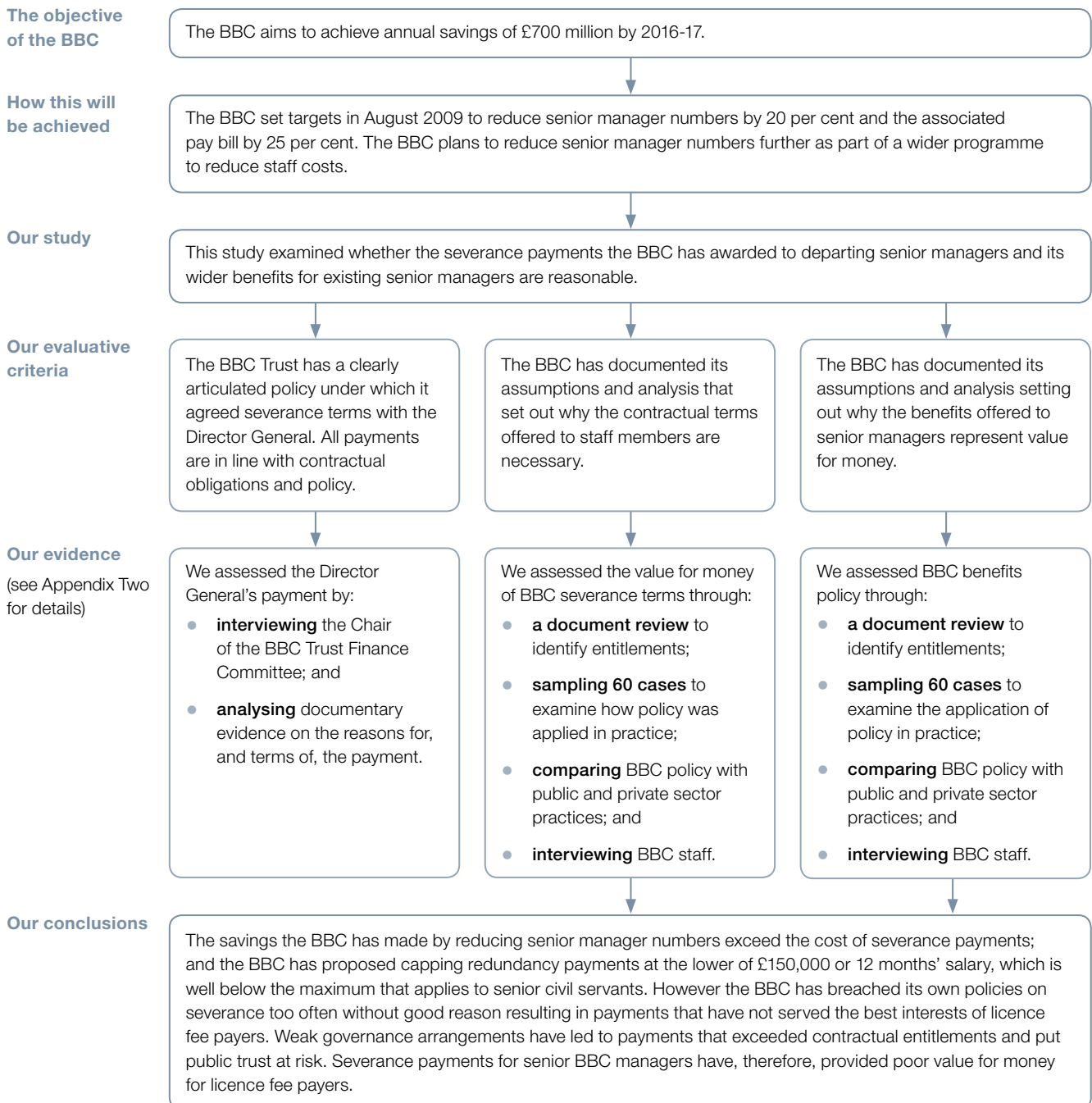
**1** This study examined whether the BBC's severance payments to departing senior managers and its benefits package for existing senior managers represent value for money. We:

- reviewed BBC policy to identify what senior managers are entitled to and compared this with benchmarks in the public and private sector;
- interviewed BBC staff involved in setting policy and making decisions about severance payments and wider benefits for senior managers;
- examined severance payments in a sample of 60 cases in the three years to December 2012 and a separate sample of 60 benefit payments to identify how policies had been applied in practice; and
- reviewed the payment made to the former Director General, George Entwistle.

**2** We applied an analytical framework with evaluative criteria that considered whether the BBC's policies, and the application of those policies, represented value for money for licence fee payers. To assess value for money we considered whether the BBC's policies on severance and benefits packages are reasonable when compared with public and private sector benchmarks. We also considered whether the BBC followed operational good practice in mitigating the cost to the licence fee payer.

**3** Our audit approach is summarised in **Figure 13** overleaf. Our evidence base is described in Appendix Two.

**Figure 13**  
Our audit approach



# Appendix Two

## Our evidence base

**1** Our independent conclusions on whether the BBC's severance payments to departing senior managers and its wider benefits packages for existing senior managers represent value for money for licence fee payers were reached following our analysis of evidence collected between February and April 2013.

**2** We applied an analytical framework with evaluative criteria to judge whether the BBC's severance payments to departing senior managers and its wider benefits packages for existing senior managers represent value for money. Our audit approach is outlined in Appendix One.

**3** We assessed whether the severance payment awarded by the BBC Trust to the former Director General was in line with policy and contractual entitlements:

- We **interviewed** the Chair of the BBC Trust Finance Committee.
- We analysed **documentary evidence** relating to the payment.

**4** We assessed the BBC's rationale for its severance policy and whether it represented value for money for licence fee payers:

- We **reviewed** BBC policies and employment contracts to identify senior BBC managers' entitlements to severance.
- We **sampled 60 of the 150 severance payments** the BBC made to senior managers in the three years to December 2012. In these cases we considered how the BBC had applied its policy on severance and whether it was in line with contractual entitlements. This was a selected sample covering different areas of the BBC, different grades and length of service, and both consensual termination and redundancy. As this was a purposive sample our findings cannot be generalised across all severance payments.
- We **compared** BBC policies with public sector practice. We also considered guidance for private sector organisations, for example the Corporate Governance Code.
- We conducted **interviews with BBC managers** to understand the rationale for severance policies and how they were applied.

**5** We assessed the BBC's rationale for the wider benefits for senior managers and changes to its policy:

- We **sampled wider benefit payments** to 60 of the 436 senior managers in post at February 2013. We considered how the BBC had applied its policy and whether it was in line with entitlements. This was a purposive sample that covered different areas of the BBC, different grades of senior management and the different benefits the BBC offers. We based our findings on an analysis of redacted payslips.
- We **compared** BBC policies with those in the wider public sector. We also considered practices in the private sector.
- We conducted **interviews with BBC managers** to understand the rationale for their benefits policies and how they were applied.
- We **analysed** the BBC's cost-benefit analysis that underpins their policies and reviewed policy documents.

# Appendix Three

## Case studies

These studies are drawn from an examination of cases relating to the three-year period to 2012. To comply with the data protection law, the BBC removed some personal information, including staff names, from the case files we examined. Our case studies are therefore anonymised, except for executive directors, whose severance payments are published in the BBC's annual report and accounts.

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### Case study 1

This case provides an example of a departing senior manager receiving their maximum pay in lieu of notice (£300,000), despite the fact that they worked their notice. BBC policy is that departing employees who work their notice should not receive any salary in lieu of notice.

#### Key facts

Length of service (years)	25	Redundancy payment (12 months' salary)	£300,000
Annual salary on departure	£300,000	Pay in lieu of notice (12 months' salary)	£300,000
		Pension augmentation	£266,288
		<b>Total severance cost</b>	<b>£866,288</b>

#### Timeline

The BBC sets out in a letter to the manager that as agreed earlier, the manager's last day of employment at the BBC will be in 14 months' time, and that the individual will be expected to take all annual leave before leaving. The letter states that the manager would receive a redundancy payment of 12 months' salary and pay in lieu of notice of 12 months' salary. The letter states that this settlement followed a number of conversations between the individual and the then Director General (Mark Thompson) and Deputy Director General (Mark Byford). The BBC offered to work closely with the manager with early planning for moving to a career outside the BBC.

Fourteen months later: The BBC writes to confirm the manager's early retirement. The payment made will comprise £300,000 for salary in lieu of notice and £300,000 for redundancy. In this final letter, the BBC refers to the manager having secured a new job with another employer.

The manager therefore received 12 months' pay in lieu of notice, despite receiving 14 months' notice of being made redundant. BBC policy is that departing employees who work their notice should not receive any salary in lieu of notice. The manager found alternative employment before leaving the BBC. BBC policy at that time was that it did not reduce severance payments for managers who found alternative employment.

#### Observations

The then Director General of the BBC, Mark Thompson, approved the payment of salary in lieu of notice, even though it was inconsistent with the BBC's policy on notice periods.

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## Case study 2

### Caroline Thomson

This case shows that the BBC paid redundancy and salary in lieu of notice to the former Chief Operating Officer in line with entitlements set out in BBC policy and the individual's employment contract. Legal and outplacement costs were not a contractual entitlement. The individual had previously applied for the post of Director General.

#### Key facts

Length of service (years)	17	Redundancy payment (12 months' salary less £3,600 in legal fees, which exceeded the contribution the BBC agreed to make to legal costs)	£331,400
Annual salary on departure	£335,000	Pay in lieu of notice (12 months' salary)	£335,000
		Legal and outplacement costs	£14,000
		<b>Total severance cost</b>	<b>£680,400</b>

#### Timeline

The BBC's executive remuneration committee considers a request for approval (sponsored by the new Director General) to close the Chief Operating Officer post and make the incumbent redundant. Three days later, the BBC writes to confirm that it is prepared to end the individual's employment on grounds of redundancy. The letter refers to discussions in which the former Chief Operating Officer, after the closure of her post, expressed a preference for leaving the BBC on the grounds of redundancy.

#### Observations

The decision that the Chief Operating Officer would leave on the grounds of redundancy was reached through a negotiation and in line with BBC policy.

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### Case study 3

#### Mark Byford

This case provides an example of the BBC paying an executive director their full pay in lieu of notice, more than eight months after raising the prospect that they would be made redundant.

#### Key facts

Length of service (years)	31	Redundancy payment (12 months' salary)	£474,500
Annual salary on departure	£474,500	Pay in lieu of notice (12 months' salary)	£474,500
<b>Total severance cost</b>			<b>£949,000</b>

#### Timeline

The BBC writes to the Deputy Director General to confirm that it is likely that the BBC would be closing this role and that, if that is the case, he will be at risk of redundancy. The BBC proposes a leaving date of just over eight months after the date of the letter, and states that if he were to be made redundant he would receive a redundancy payment of 12 months' salary, 12 months' pay in lieu of notice and £73,000 for unused leave.

The following day, the then Director General Mark Thompson, sends a note for the BBC Trust informing it of restructuring proposals including the cost associated with making the Deputy Director General redundant. The BBC Trust does not have a role in the approval process and so the purpose of the note is to inform the Trust about what is planned. In his note, the Director General states that the closure of the Deputy Director General's post would pay for itself within 16 months and the savings therefore justified the redundancy cost. The note also states that the redundancy will take place on the basis of contractual terms.

Four days later, the BBC's executive remuneration committee considers a request from the Director General to consult his deputy on redundancy and the maximum payment. The Director General confirms the need for the proposed notice period on the grounds that it is necessary to implement the associated organisational changes. The committee approves the proposed payment of £949,000 excluding accrued leave at the date of leaving. The following day, the BBC issues a press statement confirming that the Deputy Director General's post has been made redundant and Mark Byford will be leaving the BBC.

Eight months after the executive remuneration committee approved the request, the BBC writes to the Deputy Director General to confirm that the post will close at the end of the month and his employment will terminate on the grounds of redundancy, with a payment of 12 months' redundancy and 12 months' pay in lieu of notice. In addition to the severance payment, the manager received £73,000 for leave accumulated before 2004.

#### Observations

The BBC paid the departing manager the maximum possible salary in lieu of notice, despite deciding to negotiate a redundancy settlement eight months before the manager left.

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## Case study 4

In this case, a senior manager, whose post had not been made redundant, received a severance payment after notifying the BBC that they were discussing a prospective job offer with another employer.

### Key facts

Length of service (years)	29	Termination payment (12 months' salary)	£250,000
Annual salary on departure	£250,000	Pay in lieu of notice (6 months' salary)	£125,000
		Legal fees	£1,000
		<b>Total severance cost</b>	<b>£376,000</b>

### Timeline

The manager enters discussions with a potential new employer after being approached by a recruitment firm. These discussions take place against a backdrop of plans to cut the number of senior BBC managers. The manager tells the BBC about these discussions, noting among other considerations that taking up this post would involve a pay cut, and seeks the BBC's view of their future prospects at the BBC. At this point, the BBC has not decided whether to make this manager's post redundant. The BBC decides to negotiate and sign a compromise agreement.

Five weeks after signing the compromise agreement, the BBC prepares a finance case for joint approval by the relevant divisional director, divisional director of human resources and divisional director of finance. The finance case states that a deal has been agreed by the then Director General Mark Thompson and the BBC's Director of Human Resources, Lucy Adams. The BBC informed us that the Director General and Director of Human Resources now accept that there was no such agreement and that the finance case is wrong on this point.

The post remained vacant after the individual left, and responsibilities were subsequently absorbed into a broader role.

### Observations

The BBC entered a mutually agreed severance arrangement at a time when the senior manager's post had not been made redundant and the individual was in discussions with another organisation about a prospective job offer. The BBC agreed to pay severance on the grounds that it believed the individual would not otherwise have accepted the job offer, which had a lower salary.

The process governing approval of the severance payment was seriously deficient.

We provided all the individuals included in our case studies an opportunity to comment on our findings. In this instance, the individual had no knowledge of the internal process summarised above. The individual has since written to the BBC stating that they would not wish to benefit from a payment that could not be demonstrated to be fully and appropriately authorised. The individual enclosed with the letter a cheque for the net severance payment they had received.

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## Case study 5

### Sharon Baylay

This case illustrates a decision to pay an executive director 12 months' pay in lieu of notice eight months after raising the prospect that they would be made redundant.

#### Key facts

Length of service (years)	2	Redundancy payment	£51,667
Annual salary on departure	£310,000	Pay in lieu of notice (12 months' salary)	£310,000
		Ex gratia payment	£30,833
		Legal fees	£375
		BUPA	£1,763
		<b>Total severance cost</b>	<b>£394,638</b>

#### Timeline

The then Director General Mark Thompson, sends a note for the BBC Trust informing it of restructuring proposals including the cost associated with making the post held by the manager in this case redundant. The BBC Trust does not have a role in the approval process and so the purpose of the note is to inform the Trust about what is planned. In his note, the Director General states that the closure of the post would pay for itself within 16 months and the savings therefore justified the redundancy cost. The note also states that the redundancy will take place on the basis of contractual terms.

Four days later, the executive remuneration committee agrees to a request from the Director General to consult the manager about being made redundant. At this point, the individual involved has 17 months of continuous service and so is not entitled to redundancy pay under BBC policy, which requires at least two years of continuous service. However, the proposed leaving date is in eight months, at which point the individual's continuous service would exceed two years. The minutes record that the Director General confirmed the need for the proposed notice periods so that necessary changes could be implemented. Two days later, the BBC issues a press statement confirming that the individual will be leaving the BBC following the decision to close their post. The manager involved goes on maternity leave just over a month later.

Around eight months after the executive remuneration committee meeting, the manager receives a severance payment that includes 12 months' pay in lieu of notice in addition to redundancy and an ex gratia payment. The manager also receives £13,712 salary for unused leave.

#### Observations

The manager received the maximum pay in lieu of notice even though the redundancy was determined several months earlier.

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