



National Audit Office

Supplementary note

prepared by the National Audit Office
presented to the BBC Trust

British Broadcasting Corporation

Severance payments for
senior BBC managers:
supplementary note

SEPTEMBER 2013

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British Broadcasting Corporation

Severance payments for senior BBC managers: supplementary note

Supplementary note by the Comptroller and Auditor General

This note 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

2 September 2013

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This note can be found on the
National Audit Office website at
www.nao.org.uk/bbc-managers2-2013

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Summary

1 In our report on *Severance payments and wider benefits for senior BBC managers*,¹ we examined a sample of 60 of the 150 severance payments given to senior BBC managers in the three years to December 2012. In response to a request from the Committee of Public Accounts and the BBC after our report was published, we agreed to examine the remaining 90 payments and provide a supplementary note on our findings.

2 We carried out our supplementary review in August 2013 using the same methods that we applied to our original sample of 60 cases. This involved examining documentary records held by the BBC to establish whether:

- severance payments were in line with BBC policy and contractual obligations;
- the reasons for making them were clearly documented;
- the required authorisations were obtained and documented; and
- final payments equalled the amounts that had been authorised.

Findings

3 We found from our examination of the 90 additional cases that the BBC paid more salary in lieu of notice than it was contractually obliged to in 8 cases, at a cost of £143,000. Across all 150 severance payments to senior managers in the three years to December 2012, the BBC paid more salary in lieu of notice than it was contractually obliged to in 22 cases, at a total cost of £1.4 million.

4 In 5 of the 90 additional cases we examined, the BBC made other discretionary severance payments that were not provided for in its standard redundancy policy, at a cost to licence fee payers of £78,000. These included additional compensation for terminating employees' contracts and car allowance payments that departing senior managers were not contractually entitled to. The BBC told us that it made these payments to reach mutually acceptable terms. Across all 150 severance payments to senior managers in the three years to December 2012, the BBC made other discretionary severance payments to 22 senior managers at a total cost of £510,000.

¹ Comptroller and Auditor General, *Severance payments and wider benefits for senior BBC managers*, July 2013.

5 The BBC did not adopt a consistent approach to estimating severance costs when requesting authorisation to agree terms. We found eight cases where the BBC had paid salary in lieu of notice totalling £163,000 that was not included in the costs set out in the business cases. We would have expected any payments in lieu of notice to be included in business cases for severance, and found other cases where it had been. The BBC told us that business cases for severance do not need to include salary in lieu of notice because salary costs are incurred during notice periods, regardless of whether departing managers work their notice.

6 We found in 18 of the 90 additional cases we examined that agreement to pay severance had been reached before the supporting business cases had been through the relevant scrutiny and approval process. In one case, approval to pay severance of £141,000 was not provided until after the payment was made. In the other 17 cases approval was given after terms had been agreed but before payments were made. The BBC told us that in these cases it agreed terms in advance of receiving formal authorisation to avoid delays.

7 The BBC informed us during our review that it had agreed in March 2013 to meet the £687,333 cost of a redundancy payment that BBC Worldwide Limited had made in 2012 to Jana Bennett, a former BBC Executive Director. The BBC has since reversed its decision and recovered the money. The payments in this report relate only to those met from licence fee income. The National Audit Office does not have access to data on any other payments that may have been met by BBC Worldwide Limited.

- BBC Worldwide Limited, which is a commercial subsidiary of the BBC, is responsible for meeting its own redundancy costs. However, the BBC met the cost in this case on the understanding that it had committed to do so as part of the individual's move from an Executive Director post at the BBC to a senior role at BBC Worldwide Limited in 2011. The individual had been made redundant in 2012 as part of a wider restructuring of BBC Worldwide Limited. The BBC now considers that it should not have met the cost. The BBC informed us that it recovered the payment from BBC Worldwide Limited on 30 August 2013.
- The list of 150 payments in the three years to December 2012 provided by the BBC to the NAO did not include the payment to Jana Bennett. The BBC told us it did not include this payment because it did not agree to pay it until March 2013. The BBC has confirmed that there are no other cases of BBC executives or senior managers who transferred to BBC Worldwide Limited receiving severance payments that have been recharged to the BBC.

Conclusion

8 The results of our examination of a further 90 severance cases confirm the conclusion set out in our earlier report, namely that weak governance arrangements led to payments that exceeded contractual entitlements, provided poor value for money and put public trust at risk.

Data tables

1.1 This part of the note presents our detailed results. In most cases we have combined the findings from our supplementary review with data from our original report² to show results for all 150 payments in the three years to December 2012 (**Figure 1**).

Figure 1

Number and cost of severance payments for senior managers in the three years to December 2012

The BBC paid £25 million in severance to 150 senior managers in the three years to December 2012

	Number of severance payments	Cost (£m)
Original sample	60	13
Remaining cases	90	12
Total	150	25

Note

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

Source: National Audit Office analysis of BBC data

Payments in lieu of notice

1.2 **Figure 2** shows how many senior managers in each BBC division received pay in lieu of notice, and how many received more than their contractual entitlement. The BBC paid salary in lieu of notice to 65 of the 150 senior managers who received severance payments in the three years to December 2012. The total cost of these payments was £4.2 million. In 22 cases (14 in our original sample and 8 of the remaining cases), we found that the BBC paid more salary in lieu of notice than it was obliged to, at a total cost of £1.4 million. The BBC told us that it paid extra salary in lieu of notice in these cases to reach mutually acceptable terms.

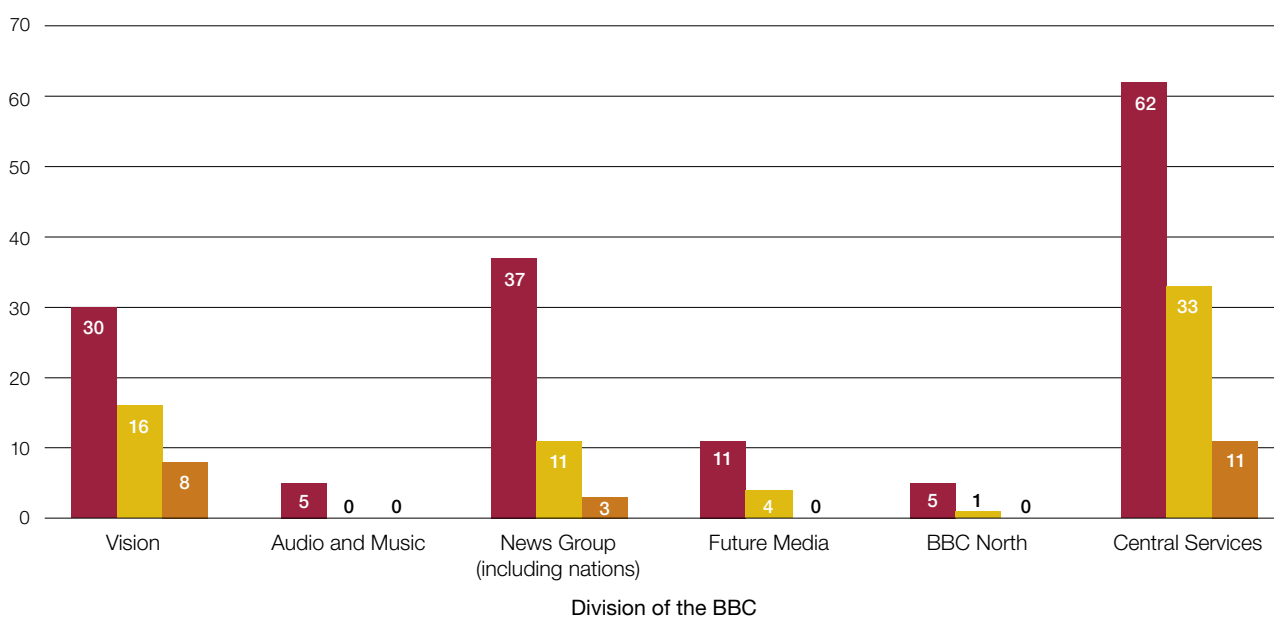
1.3 The number of cases where salary in lieu of notice exceeded contractual entitlements, as a proportion of all severance payments, was higher in our original sample than it was in the remaining 90 cases. This is because we selected our original sample using criteria that were designed to ensure we included cases that were higher-value or not in line with standard redundancy entitlements.

Figure 2

Number of senior managers who received pay in lieu of notice exceeding contractual entitlements (by division)

We found cases where senior managers had received more salary in lieu of notice than they were entitled to across the BBC

Number of departing senior managers



- Number of senior managers who received a severance payment
- Number of cases where payments in lieu of notice were made
- Number of cases where payments in lieu of notice exceeded contractual obligations

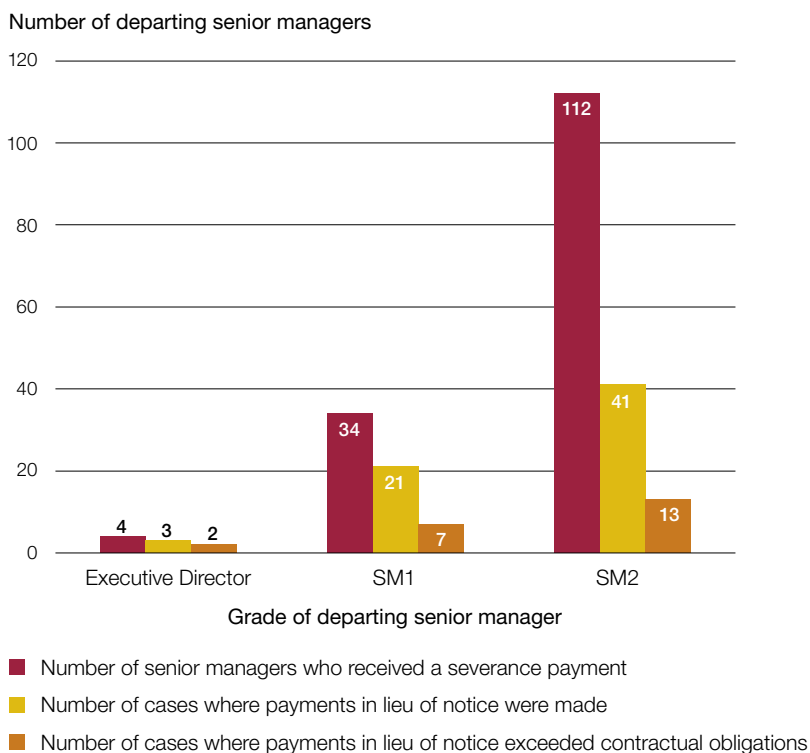
Source: National Audit Office analysis of BBC data

1.4 **Figure 3** shows how many staff in each senior manager grade received salary in lieu of notice and how many received more than their contractual entitlement. Around one third of senior managers in grades SM1 and SM2 who received salary in lieu of notice were paid more than their contractual entitlement. Two of the three Executive Directors who were paid salary in lieu of notice received more than their entitlement.

Figure 3

Number of senior managers who received pay in lieu of notice that exceeded contractual entitlements (by grade)

We found cases in all senior manager grades where staff had received salary in lieu of notice that exceeded their contractual entitlement



Source: National Audit Office analysis of BBC data

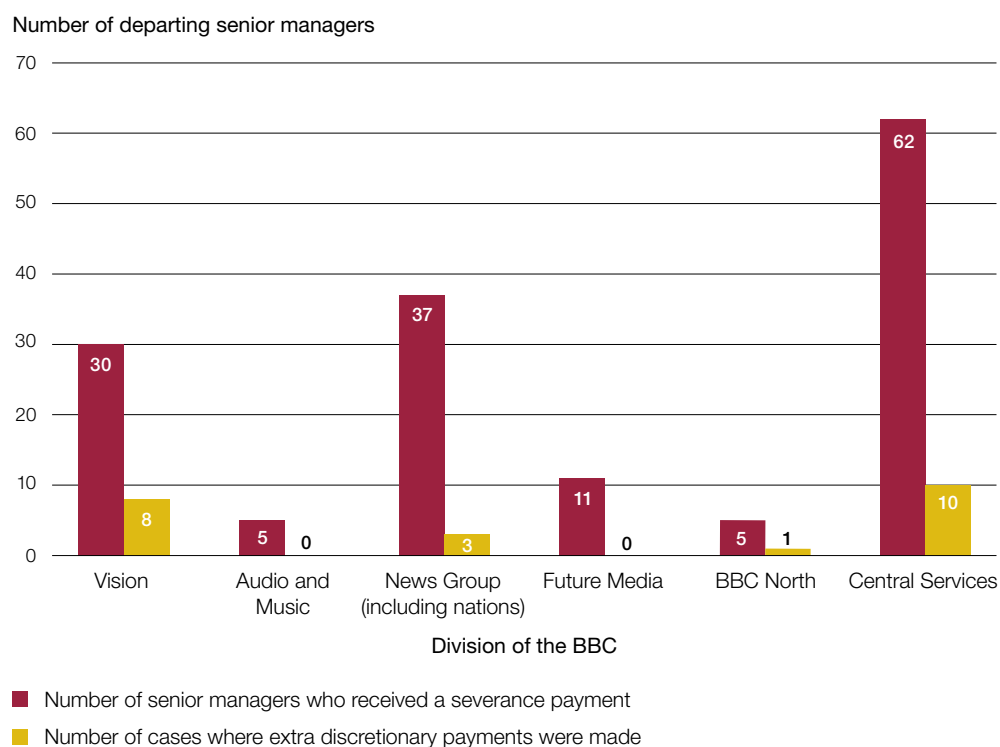
Other discretionary payments

1.5 **Figure 4** shows how many senior managers in each BBC division received extra severance, over and above salary in lieu of notice and standard redundancy entitlements. Examples of additional payments included car allowances to which departing managers were not contractually entitled and ‘compensation’ payments that exceeded standard entitlements. In 22 cases (17 from our original sample and 5 from the additional 90 cases), the BBC made extra discretionary payments at a total cost of £510,000. In 16 of these cases, the BBC made extra discretionary payments as part of a compromise agreement. The BBC told us that it had made additional discretionary payments to avoid possible disputes and agree mutually acceptable terms.

Figure 4

Number of senior managers who received payments which exceed the normal redundancy policy (excluding payments in lieu of notice) by division

Senior managers working in Vision or Central Services were more likely than managers in other divisions to get extra discretionary payments when they left the BBC



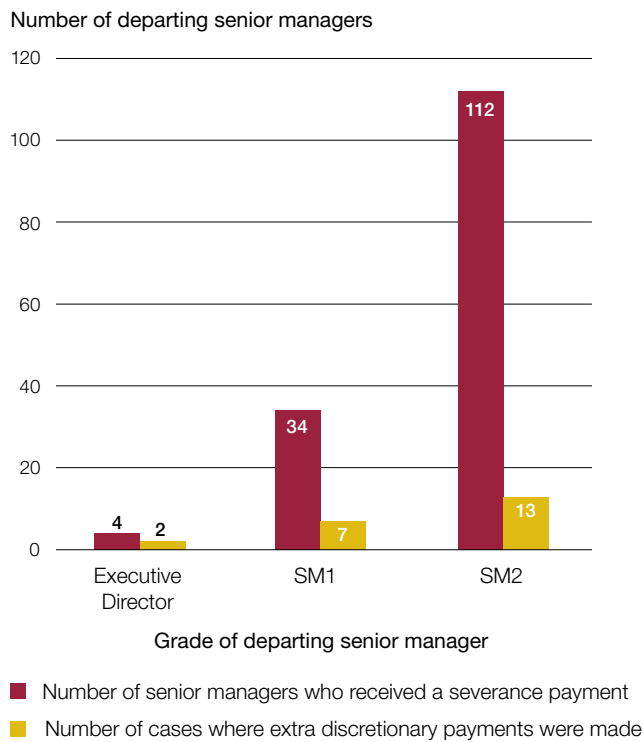
Source: National Audit Office analysis of BBC data

1.6 **Figure 5** shows the number of senior managers within each grade who received additional discretionary payments. Managers in the SM2 grade were less likely to receive additional discretionary payments than those in the SM1 or Executive Director Grade.

Figure 5

Number of senior managers who received payments which exceeded the normal redundancy policy (excluding payments in lieu of notice) by grade

Senior managers in higher grades are proportionately more likely to receive a payment above contractual entitlements



Source: National Audit Office analysis of BBC data

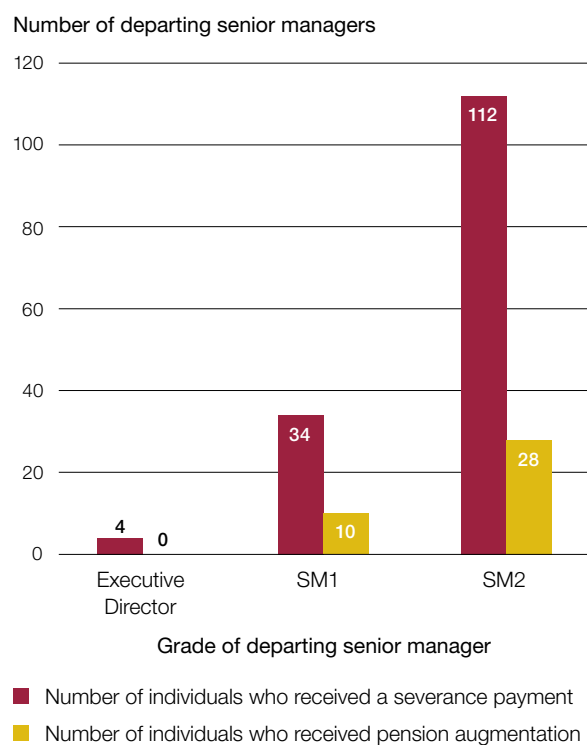
Pension augmentation

1.7 Figure 6 shows the number of senior managers within each grade who received pension augmentation. Under this policy, which was withdrawn at the end of March 2011, the BBC made additional payments to the pensions of certain eligible departing BBC staff, to enable them to draw their full pension early.³ Of the 150 senior managers who were given severance payments, 38 received pension augmentation at a cost of £3.8 million. We found that no Executive Directors received pension augmentation.

Figure 6

Number of senior managers who received pension augmentation (by grade)

We found that no Executive Directors received pension augmentation



Source: National Audit Office analysis of BBC data

³ The policy enabled staff members aged 50 or over with at least two years' pensionable service to draw their full pension at age 50, depending on which scheme they were in. Senior managers aged between 45 and 50 could draw their pension, at preferential rates, from age 50.

Payments to staff who worked for the BBC after leaving

1.8 We identified one case from our review of 90 additional payments where a senior manager worked for the BBC for a short period after leaving. This manager received a bonus on departure of £11,950 for completing a project before leaving the BBC and a severance payment of £179,200. The manager agreed before their departure that they would work on a separate project, as a contractor, for another 20 days during the three months after their permanent employment ended. The BBC paid this individual £9,650, which was taxed at source, for this work.

1.9 Across all 150 cases, we identified two instances where departing managers had been contracted to carry out work for the BBC after they left. During our supplementary review, we were informed of a third case where a senior manager had been contracted to undertake some work for the BBC after they had left. We understand from the BBC that this individual was included in our original sample of 60 payments. However, there was no evidence on file when we reviewed this case that the individual had undertaken work for the BBC after leaving. The case files did not record if staff had been re-contracted after leaving the BBC if this did not form part of the severance settlement. We have asked the BBC for further details of this case and the extent of this practice.

Authorisation

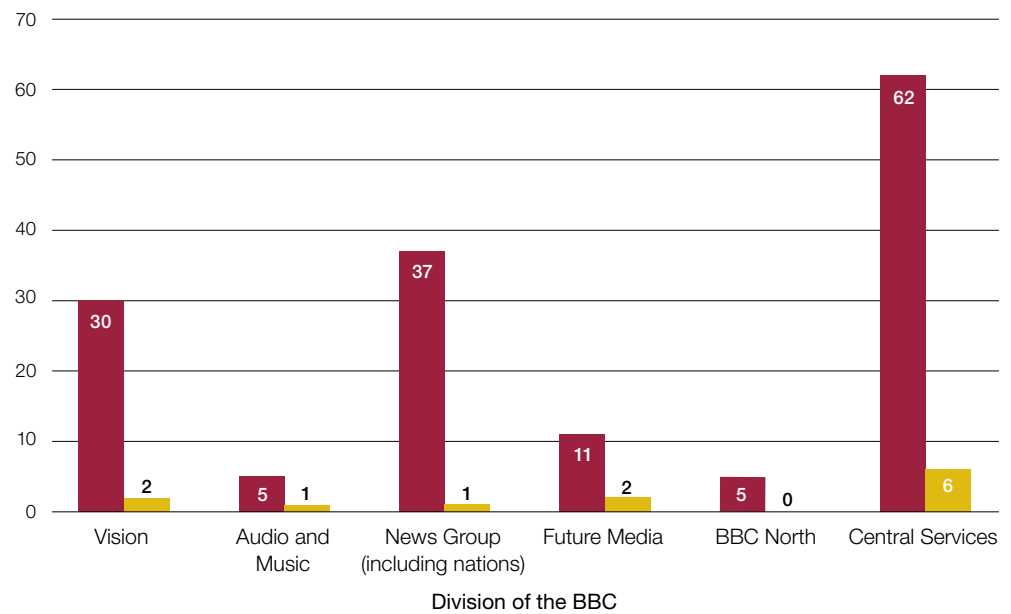
1.10 **Figure 7** shows the number of cases in each division where the BBC could not demonstrate that severance payments had been authorised correctly. In 12 of the 150 cases we examined (9 from our original sample and 3 from the additional cases) documentation demonstrating that all necessary approvals had been provided was incomplete or missing. Examples included missing business cases and approval documents that had not been signed. We found examples in nearly all the BBC's divisions.

Figure 7

Number of cases where the BBC was unable to demonstrate that approval was given (by division)

There are severance cases with incomplete documentation across the BBC

Number of departing senior managers



- Number of senior managers who received a severance payment
- Number of cases where the BBC is unable to demonstrate approval was given

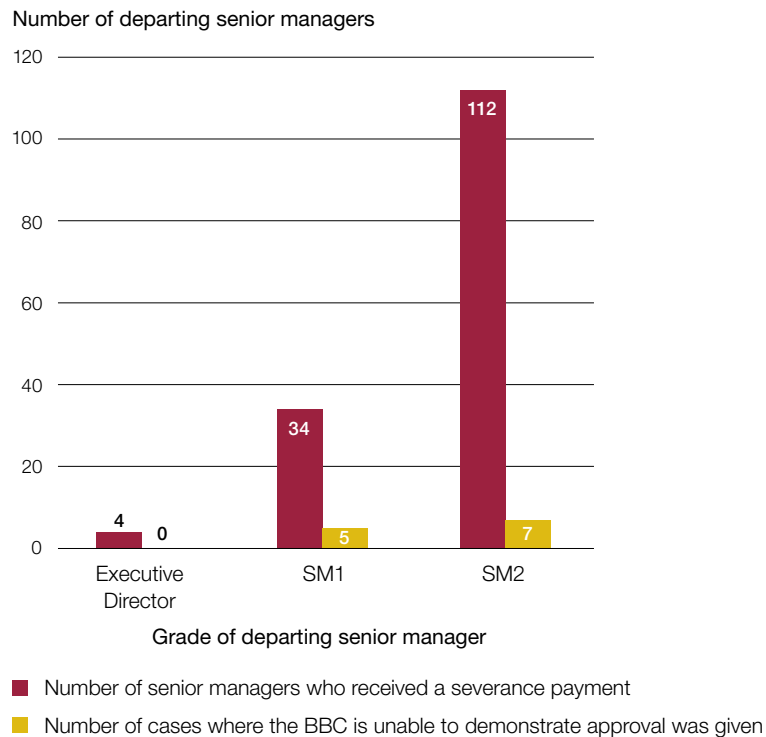
Source: National Audit Office analysis of BBC data

1.11 Figure 8 shows the number of senior managers within each grade where the BBC could not demonstrate that severance payments had been authorised correctly. Senior managers in the SM1 grade were more likely to have incomplete authorisation records compared to other grades.

Figure 8

Number of cases where the BBC was unable to demonstrate that approval was given (by grade)

There are severance cases with incomplete documentation in the SM1 and SM2 grade



Source: National Audit Office analysis of BBC data

1.12 We found that in 18 of the additional 90 cases we examined, severance terms had been offered to senior managers before authorisation to do so had been obtained. In one of these cases the BBC made a severance payment of £141,000 before it had been authorised. In the other 17 cases, which had a total value of £2.2 million, severance packages were authorised after terms had been agreed but before final payments were made. The BBC told us that in these cases it agreed terms in advance of receiving formal authorisation to avoid delays.

1.13 We identified eight cases in the additional 90 payments where the BBC paid pay in lieu of notice totalling £163,000 that had not been included in the costs set out in the business cases. Other business cases did include pay in lieu of notice in the total cost. The BBC told us that salary in lieu of notice did not need to be included in business cases as salary costs would be incurred during notice periods, regardless of whether departing managers worked their notice. Staff who work their notice continue to receive car allowances and private medical entitlements, but those receiving pay in lieu of notice do not normally receive these benefits.

Payment to a senior manager employed by BBC Worldwide Limited

1.14 In January 2011, Jana Bennett, a BBC Executive Director, left her post to take up a new role at BBC Worldwide Limited. BBC Worldwide Limited's Executive Remuneration Committee approved the terms of this appointment on the understanding that the BBC would meet the cost of severance if the individual or BBC Worldwide Limited decided within two years that the role was unsuitable. This understanding was based on verbal discussions with BBC officials rather than a written agreement. These discussions were conducted without Jana Bennett's knowledge and she was not informed of any such understanding at any point.

1.15 In 2012, BBC Worldwide Limited made the individual's post redundant as part of a wider restructuring within the company and signed a compromise agreement. She was given four months' notice and received a severance payment from BBC Worldwide Limited. The payment included £687,333, which was subsequently recharged to the BBC, comprising £404,000 for loss of office (after the deduction of some legal fees) and 10 months' pay in lieu of notice of £283,333, which was two months' more than the individual's contractual entitlement. The payments in this report relate only to those met from licence fee income. The National Audit Office does not have access to data on any other payments that may have been met by BBC Worldwide Limited. The total amount recharged to the BBC was £726,433, after adding employers' national insurance contributions due on the payment in lieu of notice. The BBC paid it in March 2013.

1.16 The BBC told us that when it agreed to make the payment it considered it was obliged to meet the cost if the individual had chosen to leave, but now considers that it should not have met the cost because her post was made redundant. BBC Worldwide Limited agreed to repay the money and the BBC recovered it on 30 August 2013.

1.17 This case was not included in the list of 150 severance payments that the BBC provided previously. The BBC told us that it did not include this case because the payment was not recharged to the BBC until March 2013, which was after the BBC compiled its original list; and it was not recorded in the BBC's list of severance payments to its public service staff. The BBC has confirmed that there are no other cases of senior BBC managers who transferred to BBC Worldwide Limited receiving severance payments that have been recharged to the BBC.



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