



BBC Review of Severance Payments 2013/14

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Contents

1. Overview	3
2. Governance	4
3. Changes to Contractual Terms	5
4. Reform of policy on payment in lieu of notice	5
5. Reform of authorisation process	5
6. Outcomes	6
7. Conclusion	8
Appendix 1	9
Appendix 2	10
Appendix 3	11

1. Overview

Over the last few years the BBC has been determined to make significant savings and drive down costs as part of our commitment to demonstrate value for money for licence fee payers. In 2009 it set itself, and achieved, the ambitious target of decreasing the number of senior managers by 20% and the associated paybill by 25% by December 2011. It has since gone further, exceeding a 35% reduction in headcount and paybill by 31 March 2014, leading to an annual reduction of £27.7m to the senior manager paybill. Through redundancies, the BBC has achieved cumulative savings in excess of £55m between 2009 and 2014, which are projected to reach £111m by the end of 2017.

However, in the BBC's eagerness to reach those targets, during the period 1 January 2010 to 31 December 2012, it is clear that some individuals received very generous severance payments. Emphasis was placed on reaching agreement with individuals in order to minimise disruption and disengagement within the BBC and on making speedy progress towards the overall savings targets. These decisions have been widely criticised and, with hindsight, it is clear that the BBC would not make them today.

Following the publication of the NAO and KPMG Senior Manager Severance Reviews¹ the BBC committed to publishing a review of severance payments for the next 2 years. This report is the first of those two reports and consistent with the scope of the NAO and KPMG reviews includes all employees, with the exception of on-air talent². This report charts the overhaul that has taken place in severance arrangements within the BBC since 25 April 2013 when it was decided that a radical change in governance, policies, contractual terms and conditions and processes was necessary. The need for these decisions was confirmed by the findings of the reviews of severance payments to senior managers from the NAO and KPMG.

This report provides details of the payments the BBC has made since 1 September 2013, the start of the new policy.

The figures in this report have been audited by the BBC's Auditors, KPMG.

¹ NAO: *Severance payments and wider benefits for senior BBC managers: 20th June 2013*
NAO: *Severance Payments for Senior Managers Supplementary Note: 4th September 2013*
KPMG: *Report into agreed upon procedures relating to Senior Manager Severance packages during the period July 2006-December 2009: 4th September 2014*

² *On-air talent were excluded from the scope of the NAO audit into severance payments for senior BBC managers because of the editorial nature of those employees' roles. BBC data provided under our voluntary salary disclosure and freedom of information also excludes on-air talent. The same principles are followed within this report to ensure consistency of data in the public domain and protect the BBC's editorial and commercial interests.*

2. Governance

Within the BBC Executive, two committees scrutinise the pay and benefits of senior managers:

(1) The Executive Remuneration Committee (ERC):

- A subcommittee of the Executive Board, the ERC was chaired by Sally Davis, Non-Executive Director and Chair of Executive Remuneration Committee until 31 December 2013
- Its members are Non-Executive Directors Dame Fiona Reynolds (who took the Chair from 1 January 2014) and Brian McBride (1 March 2012 to 31 March 2014)
- Its remit is to approve the pay and benefits of Executive Board Directors and the remuneration strategy for senior managers
- The ERC regularly reviews the BBC's progress with its senior manager remuneration strategy.

(2) The Senior Management Remuneration Committee (SMRC):

- The SMRC is chaired by the Director-General and its members are a Non-Executive Director (Sally Davis until 31 December 2013 and Fiona Reynolds from 1 January 2014), the Managing Director, Finance and Operations and the Director of HR
- It was set up in 2012 to oversee salary increases above £150k
- As a result of the review, it was clear that individual senior manager pay rises or severance payments needed to be scrutinised and specifically approved. Its remit was therefore amended to include responsibility for:
 - Approving all salary awards and increases above £75k
 - Approving all severance payments above £75k
 - Approving any discretionary severance payments i.e. payments outside of policy, of any amount
 - Approving any payment in lieu of notice or garden leave arrangement.

The SMRC also takes responsibility for monitoring and reviewing the BBC's policy on returning to work for the BBC after being made redundant.

The SMRC undertakes detailed scrutiny of all cases, asking for additional information as necessary. The focus of the Committee has made a material difference to discretionary elements of severance payments made (see paragraph on outcomes below).

3. Changes to contractual terms

In February 2013, the ERC agreed that the BBC could not sustain the redundancy and notice terms that had been in place for over 30 years and decided to implement significant changes:

- For those joining the BBC after January 2013, redundancy entitlement was reduced from one month's pay for each year of service up to a maximum of 24 months' pay to one month's pay for each year of service up to a maximum of 12 months' pay
- A cap on redundancy payments of £150k was introduced for all staff (both new and current), immediately reducing the redundancy entitlements of around 230 employees
- Notice periods for the seven Executive Directors were reduced from 12 to 6 months.

4. Reform of policy on payment in lieu of notice

One of the most significant criticisms made by the NAO was the frequency with which the BBC paid in lieu of notice in addition to severance pay.

The policy on notice has been amended and it has been made clear that where severance is paid:

- Notice will be served and worked in full
- If an individual wishes to leave earlier than the end of their notice period they will waive the remaining notice period and receive no payment
- In exceptional cases, e.g. when there is a need to protect confidentiality of sensitive information, individuals may be placed on garden leave during their notice.

5. Reform of authorisation process

The NAO criticised the BBC's authorisation processes for severance payments which were complex, typically requiring around seven approving signatories. Not only was it difficult to obtain all required signatures, it also left open to question who was ultimately responsible for the severance decision.

From July 2014, a new, simpler and stronger process is in place. The process for approving the overarching finance case for any redundancy exercise has been streamlined to emphasise individual accountability. In addition, each individual case for redundancy is now approved by the relevant manager who is directed to consider value for money and reputational issues before proceeding. The document management policy, also criticised by

the NAO, has also been improved and clarified. All redundancy business cases and Remuneration Committee approvals will be held for a period of 10 years.

6. Outcomes

Benchmarking: BBC policy is now broadly in line with the public sector

In December 2012 the ERC commissioned a benchmarking review of severance and termination policies and practices to provide market insight that would inform the reform of severance policy and practices for Executive Directors and Senior Managers. It commissioned data from three sources, providing a consistent picture of commercial and public sector market practice on severance payments and practices. These are set out in appendix 1.

This benchmarking exercise demonstrates that the changes made to the Executive and Senior Management contractual terms and severance practices have brought the BBC broadly in line with the public sector.

Severance numbers and spend have enabled the BBC to meet its commitments and targets

Since September 2013 there have been:

- No severance payments above £150k
- No payments of pay-in-lieu of notice with severance. There have been two cases of dismissal with notice where it was agreed that it was in the interests of the BBC to pay in lieu of notice so that the dismissal could take immediate effect and one case of ill health dismissal where notice was paid
- Three cases of garden leave paid on resignation have been made in order to protect the BBC's commercial interests.

The NAO and KPMG reviews of severance payments were concerned only with severance paid to senior managers at the BBC. However the same level of scrutiny now applies to all severance cases. Each case is considered fully before proceeding and consideration is given to value for money.

As the Senior Independent Director I have reviewed all severance cases between 1 April 2013 and 31 March 2014 and I can report that all new severance cases³ from 1 July 2013 onwards were authorised in line with the new SMRC remit.

There were six cases originating from before 1 September 2013 where pay-in-lieu of notice was paid in addition to severance or where a compromise agreement was reached that paid

³ New severance cases are those cases where there was no prior commitment or agreement with an individual to pay severance prior to 1 July 2013.

a little more than contractual entitlement. None of these individuals were senior managers and I am satisfied that these cases represent the very small number of agreements inherited from the previous policy, practice and governance arrangements and would not be paid under current arrangements without the appropriate level of scrutiny and challenge.

Payments made

Both the number and spend on severance has reduced between the financial years 2012/13 and 2013/14.

In the period prior to the implementation of the new policy (1 April to 31 August 2013), there were, as expected and reported to the Public Accounts Committee, a number of cases already in process. As a result:

12 payments were made above £150k (down from 23 for the full year 2012/13); and

14 payments in lieu of notice were made (down from 40 for the full year 2012/13).

However, from 1 September 2013, the start of the new policy, there were:

No payments above £150k; and

3 payments in lieu of notice (not accompanied by severance payments).

Overall, between the financial years 12/13 and 13/14:

Spend reduced from £40.2m to £25.6m; and

The number of total severance payments decreased from 793 to 413.

The payments that were made before September 2013 reflect that some cases were in the pipeline before the new policies came into effect. In future years it is our aim that there will be no payments above £150k, and no payment in lieu of notice in addition to severance payments. Our aim is to ensure that pay-in-lieu of notice will only be paid in exceptional circumstances and where there is no severance payment.

7. Conclusion

The BBC is an organisation that is constantly changing, searching for new more effective ways of operating and reducing costs while maintaining high quality outputs in all the areas we cover. The drive to improve efficiency and lead the field in creative content brings with it a need to maintain flexibility in the way we organise jobs and teams, and develop new skills. Mindful of the responsibility that comes with public service funding, the BBC aims to avoid compulsory redundancy wherever possible through improved redeployment, reskilling and retraining.

There are, however, times when redundancies are inevitable. In these circumstances redundancy costs are managed as tightly as possible while ensuring fair treatment of staff.

The BBC has changed contractual terms and conditions, and improved processes and governance. Severance spend and trends are now monitored, meeting the commitments made following the NAO and KPMG reviews. The result is a steadily declining level of severance pay.

As Senior Independent Director and Chair of the Executive Remuneration Committee, I am encouraged by this progress and from the evidence that the culture has begun to change. However there is more to do.

During 2014 the ERC will revisit the Senior Management Pay Strategy published in 2011 and incorporate into that the approach to managing staff departures. Although the cap on redundancy severance payments has reduced the cost of senior staff severance, payments in some cases are still significant.

The BBC will also take a tougher approach to managing performance; ensuring that senior managers are held to account when performance falls short of what is expected and required. When managing performance departures, compromise arrangements will be used only as a last resort, when they provide value for money.

The ERC and SMRC will continue to monitor progress on severance payments across the BBC, regularly checking that there is compliance with the new processes and governance, and refining and developing policies and processes to ensure that the BBC remains aligned with best public sector practice.

The BBC is an exciting place to work and under the leadership of Tony Hall is developing a clearer vision for the future, based on a commitment to the very best public service broadcasting. We know that one of our biggest challenges is to engage our talented and committed staff not only in their own specialist fields but around the bigger ambitions of the BBC, encouraging them to seek opportunities for career development, develop new skills and experience, and demonstrate flexibility as the world of broadcasting evolves.

Fiona Reynolds, SID

Appendix 1

Table 1: Severance Payments 2012/13 and 2013/14 (all staff including SMs⁴)

Payment Band	1 Apr 13-31 Aug 13		1 Sep 13-31 Mar 14		Total 2013/14		2012/13	
	Spend £000	Volumes	Spend £000	Volumes	Spend £000	Volumes	Spend £000	Volumes
<£10k	66	11	51	6	117	17	304	48
£10k<£50k	2,482	83	2,901	103	5,383	186	12,863	443
£50k<£75k	1,871	30	2,289	38	4,160	68	8,453	137
£75k<£100k	3,048	36	3,004	35	6,052	71	7,821	91
£100k<=£150k	2,937	25	4,191	34	7,128	59	5,932	51
>£150k	2,762	12	-	0	2,762	12	4,825	23
Total	13,166	197	12,436	216	25,602	413	40,198	793

Table 2: Payments in Lieu of Notice 2012/13 and 2013/14 (all staff including SMs⁴)

Payment Band	1 Apr 13-31 Aug 13		1 Sep 13-31 Mar 14		Total 2013/14		2012/13	
	Spend £000	Volumes	Spend £000	Volumes	Spend £000	Volumes	Spend £000	Volumes
<£5k	18	6	2	1	20	7	30	11
£5k<£10k	37	5	10	1	47	6	114	15
£10k<£20k	39	3	12	1	51	4	66	5
£20k<£30k	-	0	-	0	-	0	75	3
£30k<£50k	-	0	-	0	-	0	122	3
£50k+	-	0	-	0	-	0	533	3
Total	94	14	24	3	118	17	940	40

⁴ Excludes on-air talent

Appendix 2

Table 3: Severance Payments 2012/13 and 2013/14 (SM staff⁵)

Payment Band	1 Apr 13-31 Aug 13		1 Sep 13-31 Mar 14		Total 2013/14		2012/13	
	Spend £000	Volumes	Spend £000	Volumes	Spend £000	Volumes	Spend £000	Volumes
<£10k	-	0	-	0	-	0	-	0
£10k<£50k	40	1	40	1	80	2	-	0
£50k<£75k	-	0	-	0	-	0	63	1
£75k<£100k	176	2	189	2	365	4	176	2
£100k<=£150k	130	1	954	7	1,084	8	920	7
>£150k	2,088	8	-	0	2,088	8	3,904	18
Total	2,434	12	1,183	10	3,617	22	5,063	28

⁵ Excludes on-air talent

Appendix 3

Summary of findings from market benchmarking of senior termination policies and practices.

Redundancy terms:

- In the private sector, Executive contracts do not usually contain entitlements to termination payments including redundancy. Payments are generally capped either by reference to a number of weeks' pay or an overall average of pay (e.g. one media organisation caps at 95% of pay).
- In the public sector terminations on grounds of redundancy are more common and typically terms mirror the general employee entitlements. Within the public sector redundancy terms are typically one month's pay for each year of service capped at either one or two years pay. Local government pay the statutory minimum redundancy and the Civil Service introduced a cap on the qualifying salary for redundancy purposes of £149,820.

Contractual notice periods:

- Notice periods for Board directors in the private sector are most commonly 12 or 6 months'.
- The majority of public sector organisations typically provide 6 months' notice from the employer although occasionally 12 months applies at senior levels.

Notice practices:

- Most existing executive contracts contain a pay-in-lieu of notice (PILON) clause, allowing companies discretion to pay notice as a lump sum.
- Practice in managing notice periods varies widely depending upon the circumstances of the individual's departure and the flexibility available to the company in the individual's contract.
- Within the public sector individuals will work their notice where voluntary termination takes place. At senior levels, where the termination is by mutual agreement, there may be some payment and in redundancy situations individuals will often receive PILON rather than working their notice period. Treasury approval must be sought to approve such payments for senior individuals employed by central and devolved government organisations, including the NHS.