



BBC Review of Severance Payments 2014/15

Dame Fiona Reynolds

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Foreword

Ensuring the licence fee is spent appropriately is a responsibility the BBC Executive Board takes incredibly seriously. We are particularly conscious of this when we are making severance payments to former members of staff. While our aim is to minimise the number of severance payments, the Executive Board Remuneration Committee - which I chair - recognises that such payments are sometimes necessary in an organisation undergoing significant change. Our objective is to ensure that any severance payments we are required to make comply with a policy that is fair, proportionate and demonstrates value for money to the licence fee payer.

In 2013, following the publication of critical reports by the NAO and KPMG¹ into the BBC's record on severance payments I agreed to undertake a review of such payments for the next two years. My first report was published alongside the Annual Report and Accounts for 2013-14². I am now publishing my second and final report. This covers the year 2014-15 and it shows that the BBC's revised processes and practices are effective, providing a consistent and thorough approach to the payment of severance. I am also pleased to report a significant reduction in the number of severance payments made last year.

This report sets out information on the governance and approval structures that operate for severance within the BBC today. It also provides the full figures for severance payments throughout the past year. I have personally assured myself of these figures and they have also been independently audited. I believe this report demonstrates that the BBC is now acting as an effective steward of public funds in any necessary severance payments.

I welcome the reduction in both numbers of cases and value of payments against 2013-14 and will ensure that the BBC's remuneration committees continue to scrutinise all payments. The figures below will continue to be reported annually in the Annual Report and Accounts. The BBC will continue to bear down on the payment of severance and will remain vigilant to ensure that previous failures are not repeated.

Dame Fiona Reynolds

Senior Independent Director and
Chairman of the Executive Board Remuneration Committee

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

²At:http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/pdf/bbc_review_severance_payments_2013_14.pdf

1. Context

The BBC, like any large organisation, is not static. In order to continue to produce the quality of output expected by our audiences, it is inevitable that we will need to refresh and revise our structures and our staff profile to meet new demands and challenges.

The BBC is also undergoing significant structural changes as we deliver £1.5 billion of annual savings by 2016-17³. Some of these efficiencies result from steps we are taking to reduce or change our staffing profile. Although we always try to redeploy employees, there are times when roles become redundant, or staff will need to leave us. The BBC has industry-standard arrangements for the payment of severance in such circumstances. We aim to ensure that the costs of any such severance cases are managed as tightly as possible while ensuring fair treatment of our staff.

2. The BBC's policies

Following the 2013 National Audit Office review into severance payments, and a similar review we commissioned ourselves from KPMG we undertook to make significant changes to the policies, contractual terms and governance around severance payments at the BBC.

In February 2013 the Executive Remuneration Committee therefore agreed to implement new policies for severance payments on redundancy as follows:

- for those who joined the BBC before January 2013, one month's pay for each year of service up to a maximum of 24 months;
- for those who joined after January 2013 the entitlement is one month's pay for each year of service up to a maximum of 12 months;
- a strict cap on all severance payments of £150,000; and
- notice periods for all Executive Directors reduced from 12 to six months.

We also revised and clarified our policies on payment in lieu of notice (PILON) and other related matters. PILON payments will now not be made in conjunction with a severance payment, and only in extraordinary other circumstances. Individuals are also expected to work their notice period in full or agree to waive any remaining payments should they wish to leave employment early. In exceptional cases, garden leave may be paid, but these cases are all subject to the approval of the Senior Management Remuneration Committee (SMRC).

In the past year, in line with the recommendations of the NAO report, we have clarified the overarching principles we apply in relation to the payment of severance. These principles, which will be incorporated into the BBC's next senior manager reward strategy (to cover 2016-18), set clear expectations of when severance payments should be considered and in what circumstances they will be approved. The policy has been communicated widely through the BBC and has ensured a consistent approach to the process of making severance payments.

³ BBC Efficiency report – Driving efficiency at the BBC, available at: http://www.bbc.co.uk/corporate2/insidethebbc/howwework/reports/bbc_efficiency_report_2014

We have also benchmarked our current policies with similar public sector organisations, and believe that our severance payments and processes are in line with – and in some cases stricter than – those offered elsewhere.

3. Governance and oversight

Along with changes to our policies, since 2013, we have also reformed the governance processes by which any significant redundancy payments or other severance payments are made. Within the BBC Executive a rigorous structure is now in place to scrutinise the pay and benefits of senior staff (similar, but separate, arrangements are in place within the BBC Trust Unit). The Senior Manager Remuneration Committee (SMRC)⁴ is responsible for the approval of all contractual redundancy payments above £75k and all discretionary severance payments, of any amount, that differ from standard entitlements. The Executive Board Remuneration Committee - which I chair - retains oversight of these arrangements, and makes all decisions regarding the remuneration of the BBC's most senior executives in line with its remit under the Charter.

These arrangements mean that there is now consistency and rigour in the BBC's approval processes, ensuring that we assess all proposals for severance payments against robust criteria.

As a result of this, since September 2013 we have seen:

- a significant reduction in discretionary severance payments;
- no payments in lieu of notice when severance is also paid; and
- limited agreement to garden leave.

In the last financial year, in accordance with our new policy, we made no severance payments over £150,000.

Taken together, the steps set out above show that we have addressed our past failures and complied fully with the recommendations made by the NAO and the BBC Trust in 2013. We have completed all the actions to which we committed and continue to bear down on the cost and number of severance payments. We will continue to rigorously monitor practice through the Executive Board and Senior Manager Remuneration Committees and keep our policies under review.

This report is the final standalone severance report that we will produce, but we will continue to report details of severance payments in our annual report.

4. Severance figures and costs for 2014-15

The data on all new severance cases approved between 1 April 2014 and 31 March 2015 can be found in full at Appendix I, below. This data has been audited by EY, the BBC's auditors, and has also been assured by Dame Fiona Reynolds, Senior Independent Director.

⁴ The SMRC meets at least monthly and is chaired by the Managing Director, Finance and Operations.

The figures show a marked improvement on performance in 2013-14. There were no severance payments above the £150k cap during the year and no PILON payments in addition to severance⁵.

Redundancy payments, in all but two cases, have been made within contractual entitlements. These were due to administrative errors and totalled £712. Neither of these cases involved senior managers. In three cases garden leave during notice was paid, authorised in order to protect the BBC's interests.

Both the number and the total amount spent on severance has reduced between 2013/14 and 2014/15. Overall spend reduced from £25.6m in 2013/4, to £18m for 2014/5, a reduction of 30%. The total number of cases fell from 413 in 2013-14 to 303 in 2014-15, a reduction of 27%.

5. Conclusion

The BBC has made significant changes to the way we operate the payment of severance. The figures outlined in this report show that we now have a consistent and thorough set of policies, processes and principles that are in line with those of similar organisations. We will continue to monitor and scrutinise all appropriate severance proposals to ensure that, on the inevitable occasions that such payments are deemed necessary, they are taken forward in a way that balances fairness to staff with value for money for the licence fee payer.

In future years details of severance pay will continue to be published, as below, in the BBC's Annual Report and Accounts.

⁵ There was one case where it was agreed that it was in the interest of the BBC to pay in lieu of notice, but no severance was paid in that case – the payment was for £2,000

Appendix I

Severance payments 2013/14 and 2014/15: All staff (including senior management)*

Payment Band	1 Apr 14 - 31 Mar 15		1 Apr 13 - 31 Mar 14	
	Spend £000	Volumes	Spend £000	Volumes
Under £10k	69	11	117	17
£10k<£50k	4,183	141	5,383	186
£50k<£75k	3,571	58	4,160	68
£75k<£100k	3,259	39	6,052	71
£100k-£150k	6,952	54	7,128	59
Over £150k	0	0	2,762	12
Total	18,034	303	25,602	413

Payments in lieu of notice 2013/14 and 2014/15: All staff (including senior management)*

Payment Band	1 Apr 14 - 31 Mar 15		1 Apr 13 - 31 Mar 14	
	Spend £000	Volumes	Spend £000	Volumes
Under £5k	2	1	20	7
£5k<£10k	0	0	47	6
£10k<£20k	0	0	51	4
£20k<£30k	0	0	0	0
£30k<£50k	0	0	0	0
Over £50k	0	0	0	0
Total	2	1	118	17

Severance payments 2013/14 and 2014/15: Senior management staff*

Payment Band	1 Apr 14 - 31 Mar 15		1 Apr 13 - 31 Mar 14	
	Spend £000	Volumes	Spend £000	Volumes
Under £10k	0	0	0	0
£10k<£50k	50	1	80	2
£50k<£75k	154	3	0	0
£75k<£100k	161	2	365	4
£100k-£150k	1,311	9	1,084	8
Over £150k	0	0	2,088	8
Total	1,676	15	3,617	22

*Excluding on-air talent