



# British Broadcasting Corporation

Report into agreed upon procedures relating to Senior Manager  
severance packages during the period July 2006-December 2009

4 September 2013

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**Background**

**This report summarises our findings from our agreed upon procedures performed on Senior Manager severance packages for the period 1 July 2006 to 31 December 2009 ('the Review Period')**

**We have not discussed the findings of our report with members of the BBC Executive team or BBC Trust who were in post during the Review Period and have subsequently left the BBC**

## Introduction

On 2 August 2013 Anne Bulford, Managing Director Finance & Operations at the British Broadcasting Corporation ('BBC'), requested KPMG LLP ('KPMG') to perform certain agreed upon procedures relating to severance packages agreed with 'Senior Managers' (defined on page 4 of this report) who left the BBC during the period 1 July 2006 to 31 December 2009 ('the Review Period') with the general objective of identifying cases where certain relevant BBC guidelines may have been breached and where procedures could be improved.

Our fieldwork commenced on 12 August 2013 and was completed on 3 September 2013.

Our agreed fee for this engagement was £45,000 (excluding VAT).

## Objectives

The principal purposes of our procedures have been to identify:

- Instances where Severance Packages have been made in excess of 'BBC Redundancy Guidelines' (as defined on page 10 of this report).
- Instances where the quantum of payments in lieu of notice ('PILON') appear inconsistent with the supporting fact patterns.
- Instances where documented BBC procedures have not been followed or documentation of required authorisations have not been supplied.

We have also sought to provide recommendations on where we consider procedures could be improved.

## Limitations to our work

Our work has been limited to a review of documentation supplied to us by the BBC. In particular we note that we have not sought to interview or discuss our findings with those members of the BBC Executive team, or of the BBC Trust, who were in place during the Review Period.

In a number of cases documentation to support severance packages has not been available. We have noted these instances in our findings and where it has limited the scope of our work.

This report has been prepared on the basis set out in our engagement letter dated 12 August 2013 with the BBC ('our Engagement Letter'). Please see page 15 where we make clear that we only accept responsibility to the BBC for our work.

## Categorisation of cases

We have identified two categories of reason for leaving the BBC and presented our findings for each category separately:

### *Redundancies*

- The redundancy cases represent cases where the BBC has made a unilateral decision that an employee should leave the BBC as a result of their role being made redundant.
- These typically are part of BBC restructuring programmes (such as Delivering Creative Futures or Continuous Improvement).

### *Consensual terminations*

- Consensual terminations cover a wide range of situations, but are generally where the BBC and the individual have come to a mutually acceptable agreement that it is in the best interest of the individual and the BBC for the individual to leave.

We have selected 71 cases from the 176 individuals identified to us by the BBC as Senior Managers who left during the Review Period

Our selection included the ten largest severance packages, all non-redundancy cases, and a selection of redundancy cases

We have not sought to confirm the completeness of the Senior Manager list that has been provided to us by the BBC

### Scope of work

The BBC provided KPMG with a list of 176 individuals ('the List') who were identified as having left the licence fee funded parts of the BBC during the Review Period and who were flagged as Senior Manager grade (SM1 or SM2) at the date of leaving in the BBC HR system. The List identified Severance Packages paid to these 176 individuals totalled £22,891,940 with an average package of £130,068.

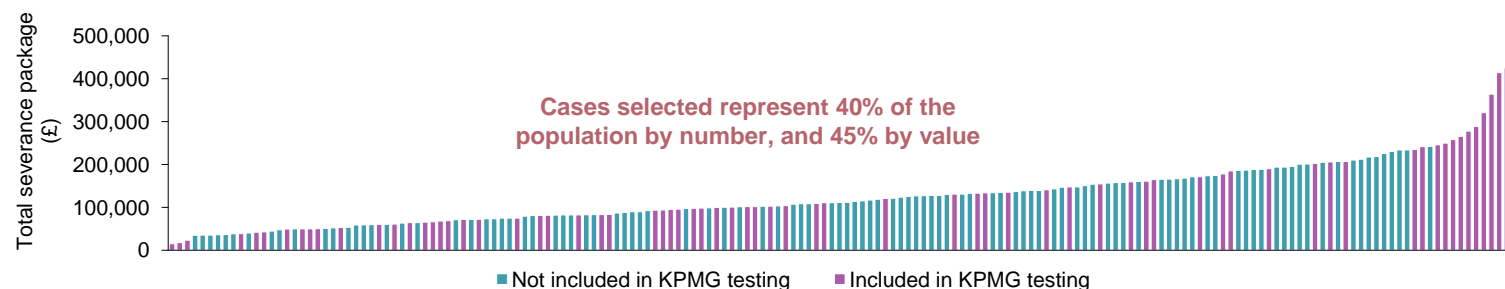
KPMG has not sought to verify whether the List is complete or the accuracy of the Senior Manager status of the individuals included on the List.

From this population of 176 individual cases, KPMG selected 71 cases for review. The selection process applied was as follows:

- The 10 largest severance packages were selected.
- All cases which were not flagged as redundancy cases on the BBC HR system, which totalled a further 35 cases, were selected.
- From the remaining 131 cases (all flagged as redundancy cases on the BBC HR system), a sub-set of 50 cases was identified, being those where the package appeared on initial analysis to be outside the normal BBC entitlement to a redundancy payment, and 26 cases were selected in an arbitrary nature from this subset.

The resulting total selection of 71 cases (split 31 redundancies and 40 consensual terminations) represents 40% of the 176 individual cases on the List and severance packages totalling £10,220,929 representing 45% of the population by value. The graph below plots the quantum of severance package for each of the 176 individuals in the population, and identifies which of the cases have been included in the 71 for review.

### Analysis of cases reviewed by KPMG



The table opposite presents the highest, lowest and average total severance packages (including PILON) from the 71 individuals in the sample during the Review Period.

	Redundancy	Consensual termination	Total
<b>Total severance (£)</b>	<b>5,193,854</b>	<b>5,027,075</b>	<b>10,220,929</b>
Lowest severance (£)	50,108	15,308	15,308
Average severance (£)	167,543	125,677	143,957
Highest severance (£)	425,750	500,100	500,100

# Findings

In 30 cases, severance packages were awarded in excess of the BBC's Redundancy Guidelines

In at least 13 cases, PILON in excess of contractual entitlement was paid

For the signed Finance Cases provided and reviewed, appropriate approvals had been documented

### Severance Packages (excluding PILON)

We have set out in the table below a summary of key findings in respect of total Severance Packages excluding PILON:

	Redundancy	Consensual termination	Total
<b>Cases (number)</b>	<b>31</b>	<b>40</b>	<b>71</b>
Redundancy (£)	3,566,646	n/a	3,566,646
Other severance payments (£)	549,773	3,493,515 <sup>(a)</sup>	4,043,288
<b>Total excluding PILON (£)</b>	<b>4,116,419</b>	<b>3,493,515</b>	<b>7,609,934</b>
In line with or lower than BBC redundancy guideline (cases)	13	28	41
In line with or lower than BBC redundancy guideline (£)	1,763,152	2,385,693 <sup>(a)</sup>	4,148,845
Above BBC guidelines (cases)	18	12	30
Above BBC guidelines (£ total)	2,353,267	1,107,822 <sup>(a)</sup>	3,461,089
Above BBC guidelines (£ excess)	600,231	611,525	1,211,756
As % of total severance package (excluding PILON)	15%	18%	16%

(a) In these cases, severance payments beyond PILON represent a mutually acceptable negotiated settlement between the BBC and the employee.

- Severance Packages (excluding PILON) totalling £3,493,515 were agreed in 35 of the 40 consensual termination cases where negotiations took place between the BBC and the individual to arrive at a mutually acceptable settlement. In 5 of the consensual termination cases the individual received PILON payments but no additional severance package.
- In 18 redundancy cases and 12 consensual terminations cases (30 cases in total), packages in excess of contractual entitlement and BBC Redundancy Guidelines were awarded, with excess entitlement compared to BBC Redundancy Guidelines totalling £1,211,756. (As documented on page 4 the sample selected was biased towards those that appeared on initial analysis to be outside the normal BBC entitlement.)

### Payment in Lieu of Notice ('PILON')

	Redundancy	Consensual termination	Total
Cases with PILON (number)	18	25	43
<b>Total PILON paid (£)</b>	<b>1,077,435</b>	<b>1,533,560</b>	<b>2,610,995</b>
PILON in excess of entitlement (cases)	7	6	13
PILON in excess of entitlement (£ excess)	215,896	68,380	284,276

- In 13 cases where sufficient documentation was available to form a conclusion, PILON in excess of contractual entitlement was paid. The amount paid in excess of entitlement was £284,276.
- In 21 cases, accounting for PILON of £1,280,233, insufficient documentary evidence was supplied to enable us to conclude whether PILON was paid in line or in excess of contractual entitlement.

### Approvals & documentation

- For 35 Severance Packages signed Finance Cases, which are required under BBC guidelines, were not provided for our review. A signed compromise agreement has been provided for 19 of these 35 cases.
- For all 31 of the signed Finance Cases that were provided and reviewed, appropriate approval had been documented.
- Where Severance Packages were awarded where no contractual entitlement existed, or redundancy in excess of BBC Redundancy Guidelines was paid, the documentation supplied for our review rarely provided justification or rationale for the quantum of Severance Package agreed.

In 18 of the 31 redundancy cases reviewed, Severance Packages in excess of the BBC Redundancy Guideline were agreed

The quantum in excess of the BBC Redundancy Guidelines totalled £600,231

### Findings

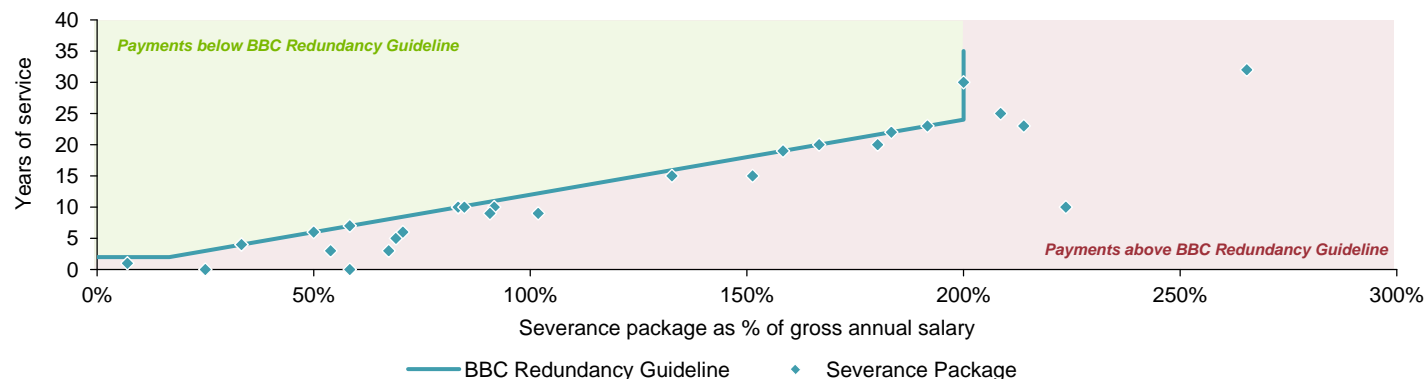
The 71 cases selected for testing included a total of 31 redundancy cases with total packages of £5,193,854.

As explained on page 10, the BBC Redundancy Guideline in place during the Review Period was that if individuals were made redundant they were entitled to one months salary for each year of completed service, subject to a maximum of two years salary, with no entitlement to redundancy payment if an individual had less than two years of service.

As highlighted in the graph below, we have identified 18 individuals from our sample of 31 who received total severance packages over and above the BBC Redundancy Guideline. In total, the element of these packages in excess of BBC policy was £600,231. We note that in the seven Finance Cases we have been provided with, no specific reference was made to, or rationale provided for, the packages being in excess of the BBC Redundancy Guideline. As documented on page 4 the sample selected was biased towards those that appeared on initial analysis to be outside the normal BBC entitlement.

31 Redundancy cases		£
Redundancy payments		3,566,646
Termination and other payments		549,773
PILON		1,077,435
<b>Total</b>		<b>5,193,854</b>
<b>Redundancy, termination and other payments in excess of guidelines</b>		<b>600,231</b>
<b>PILON payments in excess of entitlement (see page 9)</b>		<b>215,896</b>

### Severance package (excluding PILON) compared to BBC Redundancy Guideline





Severance packages in consensual termination cases are generally the result of a negotiated settlement between the individual and the BBC to arrive at a mutually acceptable settlement

12 individuals received packages that were more generous than the individual would have received in a redundancy situation

### Findings

The 71 cases selected for testing included a total of 40 consensual termination cases with total packages of £5,027,075:

40 Consensual termination cases		£
Termination and other payments	3,493,515	
PILON	1,533,560	
<b>Total</b>	<b>5,027,075</b>	

Other than where PILON is contractually due, other elements of the severance package represent a mutually acceptable negotiated settlement between the individual and the BBC.

There were a wide variety of settlements across the 40 cases reviewed, which is consistent with the nature of bi-lateral negotiations between an organisation and its employees.

In the absence of any guideline in respect of consensual terminations, we have compared the severance packages against amounts that the individual would have received had they been made redundant as part of a standard BBC redundancy programme.

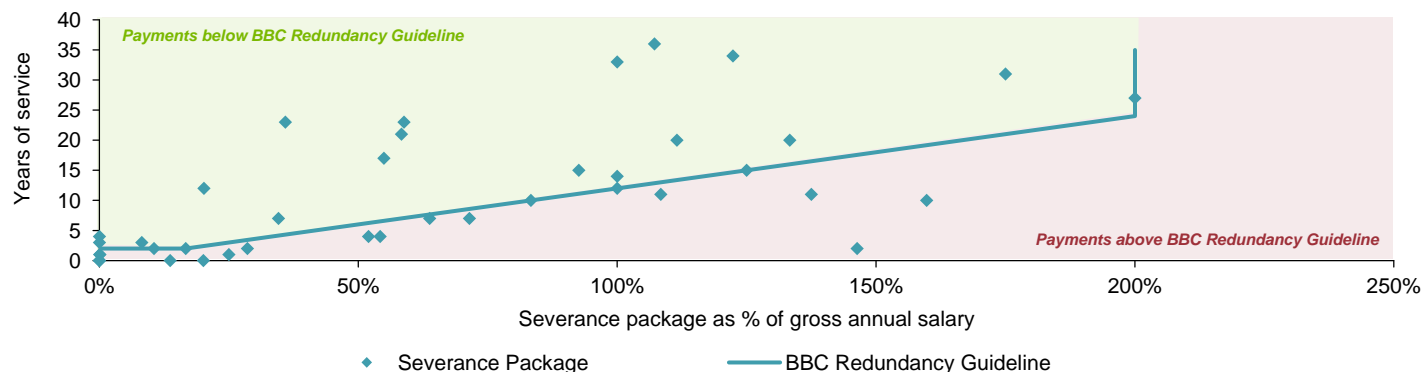
The results of this analysis are presented in the graph below. 12 individuals received packages totalling £611,525 in excess of what they would have been contractually entitled to in a redundancy situation

8 of the 40 consensual termination cases were identified by BBC management as “resignation” cases. In 4 of these 8 cases, the individuals entered into compromise agreements and resigned at the time of well publicised operational incidents at the BBC. These individuals received PILON and other termination payments as part of their severance package.

In 3 of the 8 cases, the individuals resigned for personal reasons and received PILON as they were not required to work their notice period, but no other termination payments.

In the remaining 1 case, the individual resigned for personal reasons and received termination payments of £15,308.

### Severance package (excl. PILON) compared to BBC Redundancy Guideline



**PILON was paid in 43 of the 71 cases reviewed, totalling £2,610,995**

**In 13 cases there is clear evidence that PILON in excess of contractual entitlement was paid**

**There are a number of cases where, due to lack of clear evidence on the date notice was received or served, it is not possible to conclude on whether PILON was in excess of contractual entitlement**

### Background

Payment in lieu of notice is generally a contractual entitlement where an individual leaves their employment before the end of their notice period. Senior Managers at the BBC generally have a six month notice period in their contracts.

Whilst contractual entitlement to PILON can be considered a largely mathematical calculation, comparing the date of leaving employment with the date of resignation or notice of redundancy, the nature of some termination discussions with employees, particularly where there is a compromise agreement, is that PILON forms a key part of the negotiation process.

### Findings

We have grouped our findings on PILON into three main categories:

- Cases where individuals were asked to leave with immediate effect and therefore PILON was in line with their contractual entitlement or where the documents supplied indicated that the individual worked part of their notice period and received a reduced PILON in accordance with their contractual entitlement;
- Cases where the individual worked all or part of their notice period, but received PILON in excess of their contractual entitlement (possibly as part of a negotiated settlement); and
- Cases where we have not been supplied with sufficient documentary evidence to enable us to conclude whether the PILON paid was in line or in excess of their contractual entitlement. (This is generally where the information provided does not demonstrate clear evidence of the date of notice).

*We note that in consensual termination cases, it is difficult to determine exact 'entitlement' to PILON. Where an individual works their notice period common commercial practice is that no PILON would be paid. In cases where the employee is asked to leave and not to work their full notice period (commonly referred to as 'gardening leave'), then PILON would normally be contractually due.*

	Redundancy	Consensual termination	Total
<b>Cases (number)</b>	<b>31</b>	<b>40</b>	<b>71</b>
PILON paid (cases)	18	25	43
PILON paid (£)	1,077,435	1,533,560	2,610,995
PILON in line with entitlement (cases)	4	5	9
PILON in line with entitlement (£)	165,008	300,433	465,441
PILON in excess of entitlement (cases)	7 <sup>(a)</sup>	6 <sup>(b)</sup>	13
Total PILON for excess cases (£ total)	396,600	468,721	865,321
PILON in excess of entitlement (£ excess)	215,896	68,380	284,276
No conclusion on PILON (cases)	7	14	21
No conclusion on PILON (£)	515,827	764,406	1,280,233

Note: (a) In the 7 redundancy cases where PILON in excess of entitlement was received, 2 individuals were also included in the 18 individuals identified on page 7 who received redundancy payments (excluding PILON) in excess of the BBC Redundancy Guideline

(b) In the 6 consensual termination cases where PILON in excess of entitlement was received, 2 individuals were also included in the 12 individuals identified on page 8 who received termination payments (excluding PILON) in excess of the amount they would have received under a standard BBC redundancy

During the Review Period there was guidance available regarding the quantum of redundancy that should be paid, but little guidance for consensual termination situations, or in respect of payment in lieu of notice

The majority of Severance Packages were required to be supported by a 'Finance Case', and subject to approval limits depending on the size of package

Where Finance Cases have been supplied for our review they have complied with approval limits but generally do not document the justification or rationale for the size of the package that was granted

### Guidelines

#### Redundancy

Entitlements to payments in the event of redundancy are determined by the employment contract entered into by the individual and the BBC.

The guideline applicable during the Review Period was that an individual was entitled to one months salary for each year of completed service, subject to a maximum of two years salary, with no entitlement to redundancy if an individual had less than two years of continuous service. ('BBC Redundancy Guideline'). Source: BBC Senior Manager Schedule of Benefits (November 2006).

#### Consensual terminations

Guidelines for consensual termination packages were included in the document 'Guide to compromise agreements for HR' dated November 2006 which were applicable during the review period. These guidelines included a series of items to be given consideration in compromise discussions. Whilst not part of the approval process, the BBC had guidelines that a compromise agreement should be entered into with all individuals where the agreement to terminate involved a payment in excess of the employee's minimum contractual entitlements, or where there was a risk that the BBC may face a tribunal claim. Source: Guide to Compromise Agreements for HR (November 2006)

These guidelines did not, however, provide detailed guidance on what would be considered appropriate quantum of Severance Packages, or place a limit on Severance Packages.

#### Payment in lieu of notice ('PILON')

We have not been supplied with any documentation which provides guidance on how PILON should be agreed or authorised in Severance Packages.

### Approvals

We have been informed that during the Review Period all redundancy cases and scenarios where a compromise agreement were entered into were required to be supported by a 'Finance Case'. Source: *Redundancy & Restructuring case guidelines (2007)*.

Approval of the Finance Cases was subject to the following limits:

	Size of package	Approval required
Pre March 2008	<£500,000	All of: Divisional Director, Divisional HR, Divisional Finance and Group FC
	£500,000-£1,000,000	All the above plus Group Finance Director and Director BBC People
	>£1,000,000	All the above plus Director-General
Post March 2008	<£250,000	All of: Divisional Director, Divisional HR, and Divisional Finance
	£250,000-£500,000	All the above plus Group FC
	£500,000-£2,000,000	All the above plus Group Finance Director and Director BBC People
	>£2,000,000	All the above plus Finance Committee and/or Group Board

### Findings

For the cases where we were supplied with a signed Finance Case, appropriate approval had been obtained based on the size of Severance Package. (In three instances we were supplied with an unsigned Finance Case).

For **redundancy cases**, we noted that a number of the packages were supported by a 'general' Finance Case covering a whole programme, and justification for the size of the package was rarely on a specific individual basis and never provided the reason for the individual package exceeding the BBC Redundancy Guideline.

For **consensual termination** cases, whilst there was no guideline on quantum for reference, we note that there was rarely any documented justification for the size of the Severance Package being offered.

In the cases where **payment in lieu of notice** in excess of contractual entitlement was paid, the rationale for the additional payment was not documented for the cases we reviewed.

According to BBC guidelines in place during the Review Period, all Severance Packages should be supported by an appropriately approved Finance Case

For a number of cases reviewed we have not been provided with Finance Cases

For some of these cases, other supporting documentation (such as compromise agreements) have been supplied, and for some others HR records indicate that a Finance Case did exist at the date of leaving

### Documentation

As detailed on the page 10, the BBC Redundancy Guidelines during the review period was that all redundancy cases and scenarios where a compromise agreement were entered into should be supported by an appropriately approved Finance Case.

### Findings

Whilst we have been provided with appropriate supporting documentation in a large number of cases, there have been a number of instances where Finance Cases have not been provided.

It is not possible for us to verify why a Finance Case cannot be provided for an individual case, but reasons could include: being destroyed in accordance with documentation retention policies; being misplaced; or not existing in the first place.

Current BBC management have informed us that a number of Finance Cases may have been destroyed because the date of leaving is now beyond their documentation retention policy (which the BBC have informed us was cessation plus 3 years for grade SM2, with grade SM1 staff files to be held permanently), reflecting the fact that many of the cases reviewed date from 2006 and 2007. For some cases BBC management have identified that the BBC HR records refer to a 'Finance Case number' which suggests that a Finance Case did exist at the time of leaving. We cannot verify whether this is the case, or whether the Finance Case would have been appropriately approved.

We have been provided with 'compromise agreements' in a number of cases (including instances where no Finance Case is available). Whilst the compromise agreements provide some supporting evidence around the quantum of packages agreed, they do not constitute evidence of appropriate approval for the size of package being offered.

### Reconciliation between Finance Cases and signed compromise agreements

The table below highlights the following:

- Cases where signed Finance Cases were provided from the 66 cases which per the BBC guidelines a Finance Cases should have been completed
- A breakdown of how the 36 signed compromise agreements received reconciles to Finance Cases received

	Finance cases	Signed compromise agreements provided
Total number of cases	71	
No Finance Case required – only PILON made	(5)	
<b>Total Finance Cases expected</b>	<b>66</b>	
Signed Finance Case provided	31	17/31
Unsigned Finance Cases provided	3	2/3
No Finance Case provided but HR records reference Finance Case number	8	6/8
No Finance Case provided	24 <sup>(a)</sup>	11/24
<b>Total Finance Cases expected/signed compromise agreements received</b>	<b>66</b>	<b>36/66</b>

Note: (a) Of the 24 Finance Cases not provided, 8 were graded SM1 in the BBC payroll systems at the time of leaving the organisation during the Review Period

# Recommendations

### Recommendations

We endorse the policy introduced in July 2013 requiring all severance packages in excess of £75,000 to be approved by the Senior Management Remuneration Committee.

We make the following recommendations:


- A formal policy be introduced regarding document retention for severance cases, ensuring there is consistency across all areas of the organisation, particularly HR and finance.
- That justification for all severance packages, including redundancy and PILON in excess of contractual entitlement, is documented and retained on a consistent basis.
- That approval procedures are amended to require a Finance Case for each individual redundancy, even where that individual is made redundant as part of a wider redundancy programme which may already have an 'umbrella' Finance Case.
- That the existing approval process requiring Finance Case approval for all Senior Manager severance packages is reinforced and enforced.
- That management revisit the process for PILON to ensure that it is only paid where appropriate.

# About this report

## About this report

- This report has been prepared on the basis set out in our Engagement Letter addressed to Anne Bulford Managing Director Finance & Operations at the British Broadcasting Corporation (“BBC”) dated 12 August 2013 (the “Engagement Letter”), and should be read in conjunction with the Engagement Letter.
- We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Engagement Letter.
- This report is for the benefit of the BBC only.
- This report has not been designed to be of benefit to anyone except the BBC. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the BBC, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the BBC alone.
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- In particular, and without limiting the general statement above, since we have prepared this report for the benefit of the BBC alone, this report has not been prepared for the benefit of any other broadcaster, other employers, licence fee payers, their representatives and government bodies nor for any other person or organisation who might have an interest in the matters discussed in this report.





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