Directors' remuneration report 2019

The following pages set out GMG's Directors' remuneration report for the year ended 31 March 2019. The report includes:

- Remuneration & people committee chair's statement
- The guiding reward principles adopted by the committee and the elements of remuneration
- Details of how the committee sets pay levels
- The total pay to each of GMG's directors in the year
- Details of service contracts
- The governance of executive remuneration at GMG

Remuneration & people committee chair's statement

As Chair of the remuneration & people committee, I am very aware of the need for the committee to take an approach to remuneration and talent matters that is grounded in the unique values of the Guardian and its people, as well as supporting the Scott Trust's purpose of securing independent journalism in perpetuity.

The committee is also very aware that pay, and particularly executive pay, can be an emotive subject at the Guardian because of the distinctive values of the organisation. As a committee we continue to debate and challenge ourselves on this topic and to seek input from our employees on this subject. The Remuneration Committee Information and Consultation Forum ("the RCICF") is a body made up of elected representatives from GNM employees which has the opportunity to input and influence remuneration committee agenda matters. It continues to be a valuable source of perspective and challenge for the committee and I would like to thank the representatives for their time and thoughtful input over the year.

Remuneration matters for the year

During 2018/19 the committee undertook a review of how executive directors are paid, including a review of the fixed pay model that has been in place since 2015/16. Under this approach our executive directors do not receive any bonus payments of any kind. Their pay is wholly made up of salary, pension contributions/allowances and benefits.

It has been three years since we radically changed how we pay our executive directors. During that time the Guardian has gone from facing severe financial challenges to a growing business, with a business model aligned to our values. This has included the launch of our membership programme, which now has more than one million contributors. Online traffic has also grown, demonstrating the impact of Guardian and Observer journalism under this business model. Our progress has resulted in GNM recording an operating profit for 2018-19, compared with a £57m loss three years previously. These results are testament to the commitment and ingenuity of everyone within the organisation. As well as our financial success we have also seen staff engagement improve from 79% in 2016 to 85% in September 2018.

These achievements have been balanced and complemented by the need for the organisation to remain true to its unique values. This flows through into the debate on executive pay, where the committee must continue to recruit and retain the talent required to deliver the financial success that supports world-class Guardian journalism in perpetuity, while also honoring the Scott Trust values, in particular the value of fairness.

As part of the review of pay for executive directors, the committee engaged with a number of stakeholders to capture a broad range of perspectives, including the RCICF and the Chair of the Scott Trust. The committee also took into consideration the feedback from employees on pay related matters which was collated as part of the pay principles project, as well as the Guardian's own editorial coverage of executive pay, and alternative models of pay used by other companies.

As a result of this review the committee decided to continue with the fixed pay model. It also remains the committee's approach that pension arrangements for senior executives are aligned with the contribution rates that apply to all employees. This has been the practice for senior executives over the last three years, with the only exception being legacy arrangements that were put in place before that time.

As part of the review the committee considered the salary levels for our executive directors. Given the progress the Guardian has made over the last three years the committee decided to increase David Pemsel's salary for the first time since he was appointed in 2015, and to increase Richard Kerr's salary for the first time since he was appointed in 2016. Richard's salary was increased in line with the rest of staff. He received a 1.5% increase with effect from 1 October 2018 and an increase of 3.5% with effect from 1 April 2019. For David a 5% increase was applied with effect from 1 April 2019.

During the year the Scott Trust separately reviewed Kath Viner's salary for the first time since her appointment in 2015. The Scott Trust also decided to apply a 5% increase with effect from 1 April 2019.

The committee has also been engaged with the pay principles project which has the objective of setting a clear set of pay principles that will be applied across the organisation. The intention is for these principles to be viewed by employees as transparent and fair, and this will represent a significant addition to our reward infrastructure.

Pay ratio reporting

The committee continues to monitor wider best practice developments. For many years now we have voluntarily published the ratio between CEO pay and median employee pay. This year, we have enhanced our disclosure by adopting the new CEO pay reporting disclosures which will be soon be required of listed UK companies, as well as showing the ratios for all executive directors. Pay ratios are also considered as part of GMG's ongoing project looking at the pay principles of the organisation. The committee will continue to monitor and publish the CEO pay ratio and use it as a tool to inform our pay decisions.

Gender pay reporting

GNM recently published its third Gender Pay Gap report (available here). The committee continues to discuss the gender pay gap results across the organisation, the reasons for the gap and, perhaps most importantly, providing input on the action plans for the future.

It was encouraging to see that the median gender pay gap had reduced from 12.1% in April 2017 to 4.9% in April 2019. While the year-on-year figures can be subject to some fluctuation, the overall trend is determinedly in the right direction. GNM set ambitious goals and actions in March 2018 to improve the gender pay gap over time, and these will remain priority areas for the committee over the coming years.

Our commitment to equality does of course go beyond gender. GNM will publish its ethnicity pay gap for the first time later in 2019. The committee fully supports all efforts to ensure our workforce is diverse, inclusive and reflects the society the Guardian serves.

Jennifer Duvalier

Chair of the remuneration & people committee

[2] July 2019

Principles and policies

The Scott Trust Limited's core purpose (to secure the financial and editorial independence of the Guardian in perpetuity) requires GMG to operate successfully in a competitive commercial environment. GMG's pay arrangements should be sufficiently flexible to reflect such differences while remaining within the guiding reward principles adopted by the committee. The principles adopted for the year ended 31 March 2019 remained as follows.

- The structure and level of executive remuneration must enable the **attraction and retention of executives of the quality the Group requires to deliver successfully on its long-term strategic ambitions**

- Executive remuneration policies should always **support the achievement of the Group's business strategies, and be aligned with the Group's vision and values**

- The Group should avoid paying more than necessary for this purpose. It operates a remuneration framework that **balances considerations of external market competitiveness with internal equities and reflects the importance of the organisation's values and its ownership structure**

- The committee therefore takes account of the relevant external market when setting remuneration levels but is not driven by it and **considers other factors**, **such as relevant internal pay comparisons and the reputation and attractiveness of the Group's employment brand**

Pay structure

Our principles are delivered through a simple pay structure based on fixed pay only, made up of base salary, benefits and pension.

Board roles do not participate in any performance based incentives or bonuses. This approach reflects the unique values of the Guardian. This structure was introduced following a review of our reward principles in 2015/16, taking into account feedback from the RCICF and staff. The structure was reaffirmed in 2018/19 following another review, again taking into account the views of the RCICF.

- **Salary -** The committee reviews salary levels for Board roles (other than the Editor-in-Chief of GNM, where pay decisions fall under the remit of the Scott Trust). The committee also considers proposals for increases to base pay for anyone earning over £150k per annum, increases of 25% or more, which result in a new salary of more than £50,000 per annum (for example as in the case of a promotion), as well as salary levels for new starters at executive committee level.

- **Benefits -** Benefits for Board roles principally include private medical cover.

- **Pensions -** Board roles participate in a money purchase pension scheme. Contributions to the pension scheme may be capped at the HMRC annual allowance limit (currently £10,000), with any contributions due in excess of the annual allowance provided as a cash allowance subject to the usual deductions for income tax and national insurance. As members of the pension scheme death in service benefits are also provided. Pension arrangements for senior executives will be aligned with the rate available for the majority of employees, with the exception of contractual arrangements with current incumbents, which will continue to be honoured.

Setting pay levels

When setting pay levels the committee balances setting pay at a level which will recruit and retain senior staff, with the key principle of not paying more than necessary.

To help provide context for these decisions the committee considers both internal relativities compared to other employees and external benchmarking data for equivalent roles in other organisations. The committee considers a number of external reference points, including:

- General industry companies of a similar size to GMG.
- Media and Technology companies.
- Companies with similar values to GMG.

Benchmarking data is only used as a reference point, and the committee sets pay in the context of GMG and its values rather than mechanically setting salaries based on benchmarking data.

The Group has robust mechanisms in place to monitor the operation of its executive remuneration strategy, and the committee takes account of the remuneration of other groups of employees in making decisions on executive pay.

Remuneration for chair and independent directors

The chair and independent directors are paid a basic flat fee with further payments made for additional responsibilities such as chairing a committee. They do not receive any other form of pay.

Fees for the chair are set by the committee and fees for independent directors are set by the chair and the CEO of GMG. Fees were last reviewed in 2016/17 and fees have not been increased since April 2007.

Pay ratio reporting

For the last five years we have disclosed the pay ratio between the CEO and the median pay of other GMG employees, based on Hutton's methodology of top to median earnings. The CEO pay ratio calculated using this methodology is summarised below:

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
17.2	15.8	15.2	13.1	12.6	**12.4**

There is now legislation in place that will require all UK listed companies with more than 250 UK employees to publish the ratio of their CEO's pay, using the CEO's total emoluments to that of the median, 25th and 75th percentile total remuneration of full-time equivalent employees.

Whilst this legislation does not apply to GMG as a private company, the committee considers it is important to continue to take a lead in this area by adopting this new methodology, and to go further than the new requirements by applying it to all executive directors. This year's disclosure is a transition year between the Hutton methodology, which will not be reported next year, and the new methodology. Using the new methodology, the table below sets out the pay ratio between the pay of the median, 25th and 75th percentile employees (on a full time equivalent basis), and the pay of each of our executive directors.

The CEO pay ratio for 2018/19 under this new methodology is lower than the Hutton methodology because the new methodology includes the value of employer pension contributions, and therefore increases the value of the median employee pay.

	25th percentile employee	Median employee	75th percentile employee
CEO pay ratio	15.5	**11.6**	8.8
Editor-in-Chief pay ratio	8.2	**6.2**	4.6
CFO pay ratio	9.8	**7.3**	5.5

The 25th percentile, median and 75th percentile employees were identified based on full-time equivalent salary data as at 31 March 2019. Pay details for the individuals on a full-time equivalent basis are set out below:

	CEO	Editor-in-Chief	CFO	25th percentile employee	Median employee	75th percentile employee
Salary	£600,000	£340,000	£406,000	£40,000	£53,762	£70,401
Total pay	£702,873	£371,473	£443,413	£45,360	£60,393	£79,921

Methodology note

The Hutton ratio compares the full-time equivalent, annualised, total remuneration of the highest paid director in role at the end of the relevant financial year, included in the directors' emoluments table on page [5], with the median full-time equivalent, annualised remuneration of GNM and GMG permanent UK staff in position at the end of the relevant financial year.

Under the Hutton methodology, the median remuneration figure is the total remuneration of the staff members lying in the middle of the linear distribution of total staff, excluding the highest paid director. Total remuneration includes base salary; performance related variable compensation and benefits in kind but excludes historical long term performance related compensation and employer pension contributions.

Under the new methodology, total remuneration includes all remuneration, including employer pension contributions, aligned with the directors' emoluments table on page [5].

Directors’ emoluments

	Note	Base salary £000	Benefits £000	Pension contributions and allowances[1] £000	**Total 2018/19 £000**	Total 2017/18 £000
Executive Directors	1					
David Pemsel	2	600	4	102	706	706
Katharine Viner	3	340	1	31	372	372
Richard Kerr	4	403	3	33	439	434
Independent Directors and Chair						
Neil Berkett		120	-	-	120	120
Jennifer Duvalier	5	34	-	-	34	34
Yasmin Jetha (*from 1 February 2018)		34	-	-	34	6 (part year)
Nigel Morris		34	-	-	34	34
John Paton		34	-	-	34	34
Baroness Gail Rebuck	6	44	-	-	44	44
Coram Williams	7	39	-	-	39	39
Former Directors						
Judy Gibbons (*to 30 November 2017)	8	-	-	-	-	25 (part year)
Jimmy Wales (*to 25 April 2017)	9	-	-	-	-	3 (part year)
		1,682	8	166	1,856	1,851

*Date of appointment, resignation or other changes to directorships.

One director received an increase in remuneration due to company wide arrangements as noted per item 4 below. There were no other increases in remuneration for any directors in the year.

Benefits comprise solely healthcare and life and income protection. The latter is calculated as a percentage of base salary.

1. Executive directors' pension arrangements are paid in two parts. Contributions to the company pension are restricted to the annual tax- approvable limit of £10,000. Any value above this limit is paid as cash in lieu of pension contributions and subject to PAYE.
2. David Pemsel's base salary for the year was £600,000. David's company pension contribution rate was 17% of base salary. David does not receive any performance related variable compensation. David did not receive any increase in remuneration in the year. David's salary was reviewed during the year. His salary was increased by 5% to £630,000 with effect from 1 April 2019. This increase will be shown in his total pay for 2019/20 in next year's Directors' Remuneration Report.
3. Katharine Viner's base salary for the year was £340,000. Katharine's company pension contribution rate was 9% of base salary. Katharine did not receive any increase in remuneration in the year. Katharine's salary was reviewed during the year by the Scott Trust and was increased for the first time since her appointment in 2015. Her salary was increased by 5% to £357,000 with effect from 1 April 2019. This increase will be shown in her total pay for 2019/20 in next year's Directors' Remuneration Report.
4. Richard Kerr's base salary for the year increased from £400,000 to £406,000 due to a business-wide 1.5% increase with effect from 1 October 2018. Richard's company pension contribution rate increased from 8% to 9% during the year in line with an age related increase under the scheme rules. Richard does not receive any performance related variable compensation. Richard's salary was reviewed during the year. He received the business-wide increase of 1.5% with effect from 1 October 2018. He will also receive an increase of 3.5% with effect from 1 April 2019. This will result in a base salary of £420,000 for 2019/20, which will be shown in next year's Directors' Remuneration Report.
5. Jennifer Duvalier's remuneration included an additional fee for chairing the Remuneration Committee which she waived for this financial year.
6. Baroness Gail Rebuck's remuneration included an additional fee for acting as Senior Independent Director.
7. Coram Williams' remuneration included an additional fee for chairing the Audit Committee.
8. Judy Gibbons stepped down as an Independent Director on 30 November 2017. Her annualised remuneration was £34,000.
9. Jimmy Wales stepped down as an Independent Director on 25 April 2017. His annualised remuneration was £34,000.

Service contracts

All executive directors have service contracts terminable on notice by either party.

The chair has a letter of appointment which allows for three months' notice by the chair; no notice period needs to be given by the Company or, where appropriate, The Scott Trust Limited.

Independent directors have letters of appointment that are terminable by immediate notice by either side. Terms and conditions of appointment of independent directors are available for inspection by any person at the Company's registered office during normal business hours.

Details of the service contracts of those directors in office on 31 March 2019 (being the year-end), or appointed subsequently, are as follows:

	Contract / contract renewal date	**Contract unexpired term at 31 March 2019**	**Notice period**	**Contractual termination payments**
Executive Directors				
David Pemsel	1 July 2015	12 months rolling	12 months	Notice Period
Katharine Viner	1 June 2015	12 months rolling	12 months	Notice Period
Richard Kerr	12 April 2016	12 months rolling	6 months	Notice Period
Independent Directors and Chair				
Neil Berkett	1 July 2016	3 months[1]	By Chair, 3 months; by Company, none	None
Jennifer Duvalier	1 May 2017	1 year 1 month	-	None
Yasmin Jetha	1 February 2018	1 year 10 months	-	None
Nigel Morris	1 September 2018	2 years 5 months	-	None
John Paton	1 May 2016	1 month[2]	-	None
Baroness Gail Rebuck	27 January 2019	2 years 10 months	-	None
Coram Williams	26 January 2017	10 months	-	None

[1] During the year, Neil Berkett received an extension of his appointment as non-executive director and Chair of GMG until July 2022.

[2] During the year John Paton's appointment as non-executive director was extended for its final term until May 2022.

Governance

The remuneration & people committee is responsible for setting the Group's compensation framework and for determining the remuneration packages of the executive directors and key senior managers. The committee retains the right to scrutinise and, if necessary, veto proposals for individuals outside this group, and has oversight of talent and the overall employee experience for all staff. The Editor-in-Chief of GNM's pay is set by the Scott Trust.

The committee has met on 4 occasions in the last 12 months. The committee consists of three independent Board directors, Jennifer Duvalier (the committee chair since 1 December 2017), Baroness Gail Rebuck and Yasmin Jetha. As chair of the Company, Neil Berkett normally attends the committee's meetings. In addition, on matters other than those concerning themselves, the chief executive, editor-in-chief, and group HR director normally attend meetings. Deloitte LLP is retained as independent advisors to the committee and the committee has access to other professional advice where necessary.

Jennifer Duvalier
Chair of the remuneration & people committee
[2] July 2019