Culture Recovery Fund: Repayable Finance

Pay Restraint guidance note

Introduction

This guidance note seeks to support CRF Repayable Finance recipients in considering whether any pay award proposals would meet the pay restraint clause included in all CRF Repayable Finance agreements. To note, this guidance does not supersede any HMT public sector pay guidelines, where recipients are required to adhere to these.

The pay restraint clause, at 13.16 (a) of the Repayable Finance agreement states:

- *it will exercise pay restraint for at least 18 months from the date of this Agreement, where legally possible for it to do so (including, and not limited to, by imposing a pay freeze for all senior employees and a 10% reduction in remuneration to the pre-Covid-19 remuneration packages for employees contracted to receive above £150,000 per year)*

As clarified in the guidance for Repayable Finance Round Two, by 'senior staff' we mean members of your executive team. All CRF Repayable Finance recipients should adopt this definition.

In particular, the guidance seeks to help CRF Repayable Finance recipients judge whether their pay award proposal meets the first part of the clause – the need to exercise pay restraint during the first 18 months of the CRF Repayable Finance agreement for staff paid less than £150,000 who are not members of the organisations' executive team.

We consider that pay restraint means making minimal pay awards to staff, who fall outside of the specified criteria set out above, where **necessary**, to ensure the successful execution of your business plan to bring the business back to sustainability. Pay proposals also need to be carefully considered in terms of **affordability** and should not risk the financial recovery of the organisation or its ability to make loan repayments.

Is a pay award necessary?

Deciding whether any pay award is necessary during the 18-month pay restraint period will depend on the individual circumstances of each CRF Repayable Finance recipient. We would expect the organisation to consider a number of questions and gather a range of evidence before deciding whether any pay award is necessary now.

The evidence and questions a CRF Repayable Finance recipient should consider will be specific to each organisation but could, for example, include:

- Is there evidence that competitors are/will be paying general increases to their employees that would result in finding it difficult to recruit or retain staff?

- Is the proposed pay increase consistent with pay awards happening in the industry sector? Where the recipient is a public sector organisation, is the pay award proposal in line with the spirit of the public sector pay policy?

- What is the level of staff turnover? Is there evidence it is increasing, and the retention challenge is a result of dissatisfaction over pay?

- Is there difficulty filling vacant posts and is there evidence this is as a result of the pay offered?

- Do retention or recruitment challenges relate to all staff or are they limited to specific pay grades, geographic market or specialisms?

- Why is a pay award needed now? What is the reason it can't wait until the 18-month pay restraint period is ended?

Is a pay award affordable?

If a CRF Repayable Finance recipient reaches the conclusion that a pay award is necessary, it also needs to be carefully considered in terms of affordability.

Any pay award proposal needs to be affordable and should not risk the financial recovery of the organisation or its ability to make loan repayments. We would expect organisations to demonstrate the pay award proposal is affordable in one of the following ways:

- The pay award proposal was referenced in the original application and the cost included in the profit and loss/income and expenditure budgets and cashflow forecasts **and** the recipient is not aware of any material adverse variances in those budgets/forecasts since the application was submitted. This should be demonstrated by most recent financial documents submitted as part of ongoing loans monitoring.

- Provide revised profit and loss/income and expenditure budgets and cashflow forecasts that show the pay award proposal is affordable **and** the recipient can demonstrate that the additional cost will not adversely affect the organisations' ability to financially recover and/or make loan repayments in line with the repayment schedule. Supplied budgets and forecasts should clearly demonstrate impact both with and without the proposed pay award.

Setting the remuneration approach for any organisation in receipt of CRF Repayable Finance is a matter for the board and management to determine. You cannot ask the Arts Council (or DCMS) to endorse or approve the remuneration approach you propose adopting.

The Arts Council will, as part of its monitoring role on behalf of DCMS, be considering whether any pay award made by the CRF Repayable Finance recipient breaches the pay restraint clause. If the organisation can demonstrate a clear rationale, including that it has considered both the necessity and affordability of any pay award proposal, and provides appropriate and robust evidence to support its conclusions, it is likely we will be able to conclude the pay restraint clause has not been breached.

If it is deemed there is insufficient evidence and/or rationale to support the pay award proposal, the organisation would be considered in breach of the pay restraint condition. Arts Council England are able to reconsider the proposal, on the basis of additional evidence and/or rationale provided, within a period of three months from the original submission.

Contact details

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