Summary and appreciation of the Commission Report to Parliament and Council on the application of Annex XI to the Staff Regulations and Article 66a thereof (COM (2022)180 final of 26.4.2022)

A. Background (AIACE)

Annex XI of the SR sets out the detailed rules for the implementation of Article 64 and 65 which provide for the fixing, without the intervention of another legal act, of correction coefficients and the annual updating of officials' remuneration and other amounts, based on statistical data reflecting the situation on 1 July each year, the date when the update becomes effective.

Accordingly, Annex XI establishes that Eurostat, in close cooperation with the statistical representatives of Member States in the Article 64/65 Working Party draws up a report each year by 1 October setting out the weighted average changes (upwards or downwards) in the 12 months to 1 July in the <u>cost of living</u> for staff in Belgium and Luxembourg (measured by the Joint Belgium-Luxembourg Index or JBLI) and in the <u>purchasing power</u> of national civil servants in central government (measured by the Gross Specific Indicator or GSI, which is the weighted average of the Specific Indicators for each of the 10 Member States in the sample[1], deemed to be representative of all 27 Member States). The combination of these changes in the JBLI and in the GSI produces the % update required to maintain EU salaries and pensions in line with the development of the real terms pay of Member State civil servants ("parallelism"), although with an inevitable time-lag of several months. (The "Method"). There is also provision for intermediate updates of the overall level of salaries and pensions and/or in correction coefficients in the event of a substantial change in the cost of living during the first half of a 12-month period.

Subject to certain defined conditions, the application to the update of the GSI element of the Method is postponed, in part or in full, by the triggering of the moderation or exception clauses, when certain situations prevail for the 12-month period concerned (GSI variation of more than 2%; decrease in EU GDP).

Article 15 of Annex XI stipulates that the present Method applies from 1.1.2014 to 31.12.2023 and that before 31.3.2022 the Commission shall submit a report which has regard to the regular surveys of the institutions' recruitment needs conducted under Article 2 of this Annex and assess, in particular, whether the purchasing power of officials' remuneration and pensions is in accordance with the changes in the purchasing power of salaries in national civil services in central governments. On the basis of that report, if appropriate, the Commission shall submit a proposal to amend the Annex, as well as Article 66a of the SR (the solidarity levy). As long as Parliament and Council have not adopted a Regulation on the basis of a Commission proposal, Annex XI and Article 66a shall continue to apply provisionally beyond the date of 31.12.2023.

B. Introduction

This report implements the aforementioned provisions by assessing the fulfilment of the EU institutions' recruitment needs, describing the process and outcome of the implementation of the rules for updating remuneration and pensions under Annex XI to the SR (hereinafter the "Method") as well as the solidarity levy under Article 66a for the period 2014-2021.

C. The Institutions' Recruitment Needs

As a general rule, EPSO has managed to recruit the required overall number of laureates. However:

[1] 11 Member States (including UK), up to and including 2020.

-there has been a marked decline in the number of applicants for AD generalist competitions (since the 2004 SR reform in the case of pre-2004 Member States and since the 2014 reform in the case of post-2004 Member States, adversely affecting the ability to fulfil the institutions' recruitment needs, especially with regard to geographical balance. There has had to be increasing resort to temporary agents to fill the posts normally occupied by permanent staff.

-there have been difficulties for the Commission in recruiting staff on the broadest possible geographical basis. Some nationalities are not sufficiently represented on the EPSO lists of laureates. There are now 13 significantly underrepresented nationalities among junior administrators.

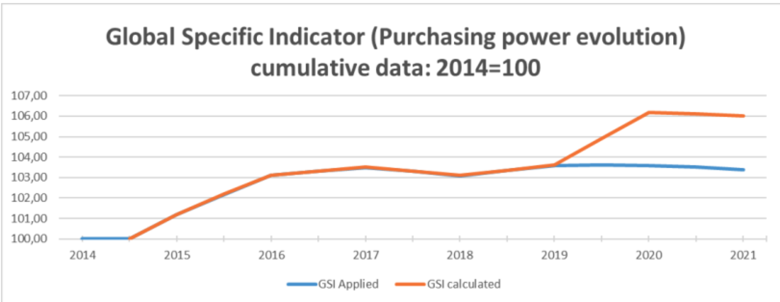
The supporting data is set out in Annexes I - 4.

Analysis of the reasons for the imbalance between Member States for applications for competitions are set out in Annexes 5.1 – 5.7 and reveals that the "attractiveness" of the EU institutions is highly correlated to the level of net earnings and employment prospects and with the OECD better life index for the individual Member States. Correlation with national employment levels, the image of the EU among citizens and the perception of improvement in one's financial situation in the coming year is weak or non-existent.

D. Implementation of the Method

1. Trends in the Gross Specific Indicator and in individual Specific Indicators

The report shows that the development of the remuneration of EU officials, as measured by the sample of the representative Member States, has tended to lag behind the hypothetical GSI for all Member States. Since 2014, the index for the sample GSI has risen to 106.0 by 2021 or 103.4 excluding the postponed 2.5% of GSI from 2020 under the exception clause, compared to 106.5 for a hypothetical GSI for all Member States. This means that the actual increase in EU remuneration in this period only reached about half of the increase in the purchasing power of national civil servants.



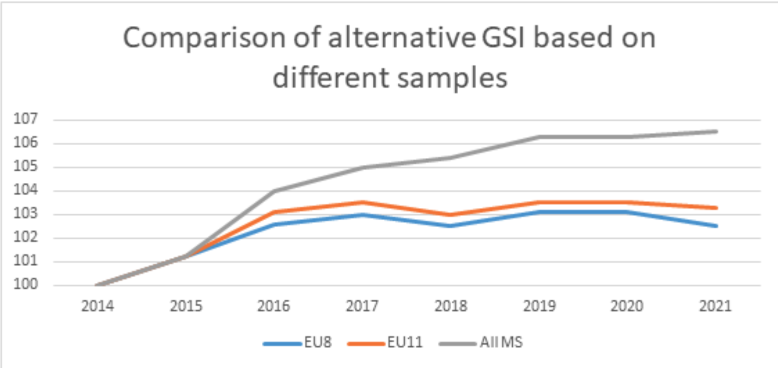
The report also points out that the highest net increases in the remuneration of national civil servants tended to be in Member States (SK, CZ, BG, RO) which were not part of the sample and that the vast majority of Member States that are in the sample but have low participation rates in EU competitions had specific indicators largely superior to the GSI (e.g. DE, SE, PL, NL, AT). The relative attractiveness of the EU has therefore declined for these two groups of Member States.

The application of the exception clause in 2020 (postponement of the whole of the GSI element of 2.5% of the Method until at least 2022) has allowed account to be taken of the severe economic downturn of 2020 but has nevertheless prevented the parallel evolution of EU remuneration in line with that of national civil servants, resulting in a decline in the attractiveness of the European civil service. Mention is also made of the salary freeze of 2013 and 2014 which also represented a departure from the principle of "parallelism" and generated savings over the period 20134-2014 of

€1.5 billion according to the Court of Auditors in its Special report 15/2019 (which also highlighted the negative consequences for staff of the 2014 Staff Regulations reform).[2]. The reintroduction of the solidarity levy at an increased rate as from 1.1.2014 will also have had an adverse effect on net remuneration for EU staff compared to the pay of national civil servants.

Overall, the Commission estimates that since the 2004 reform and in the period to 2021, EU staff have experienced a real terms reduction in purchasing power of 10.3% whilst those in central government have gained an average 0.9%. The graph in Annex 11 shows that over the period 2013 – 2021, based on the GSI sample, the purchasing power of EU staff reached only half of the increase in purchasing power of that for national civil services (+3.4% against + 6.5%), reducing the perceived attractiveness of the EU as an employer.

In the conclusions to the report, the Commission considers it necessary to further evaluate the opportunity of broadening the sample of Member States used for the calculation of the GSI element of the Method. *(See comment 1)*



2. Issues relating to correction coefficients

Staff perceptions

The perception by staff of what are considered to be inadequate levels of correction coefficients may help to explain problems of the agencies in recruiting and retaining highly-qualified and geographically balanced staff in Member States with CCs of less than 100. However, similar difficulties are also reported in agencies where there are high CCs. This indicates that these problems are not solely linked to CC levels but also to the general decrease in the net purchasing power of EU staff relative to national staff.

Out-of-area expenditures

It is recognised that the existing methodology for determining CCs for staff does not take account of "out-of-area expenditures" i.e. staff expenditures which regularly take place away from the duty station. This problem is recognised by the Commission; Eurostat is working on this matter with the

[2] Although the Commission has not publicly revealed the impact of the salary freeze, data published by Union Syndicale have indicated that the Method would have pointed to updates of -0.2% (of which -1.7% for GSI) for 2013 and +2.2.% (+1.3% for GSI) for 2014 – Union Syndicale Consilium, 14.12.2021. (According to Ludwig Schubert's assessment, the loss of purchasing power was -1.5% for 2013 and -0.9% for 2014 - see data on the follow-up of the Method, published annually by AIACE).
Nor should it be forgotten that the previous version of the Method pointed to updates of +1.7% for both 2011 and 2012 but the actual updates decided by Parliament/Council were 0% and +0.8% respectively.

national statistical institutes with a view to updating family budget surveys to quantify the impact of such expenditures. Results could take some years to appear, and changes will require agreement in the Article 64/65 Working Party. Some of the envisaged changes could be implemented within the existing Regulations. Preliminary work indicates that, based on the current year, inclusion of out-of-area expenditures would likely result in an increase in CCs for Member States with an existing CC of less than 100 of up to 5% (BG), and a decrease in the CCs of Member States with a CC of more than 100 of up to -3% (SE). Details of this exploratory work are shown in Annex 19. *(See comment 2)*

Luxembourg living costs

The cost of living in Luxembourg which always has a CC of 100, is recognised as a particular problem. According to a survey, accommodation costs in Luxembourg in 2019 were 53% more than in Brussels. However, a significant proportion of staff reside outside the Grand Duchy where accommodation is significantly cheaper than in Brussels. A working group of representatives of the relevant institutions is "currently discussing the possibilities to address the challenges faced by most vulnerable staff members who are assigned to and reside in Luxembourg." The Commission's work on out-of-area expenditures would also be relevant to reflections on introducing a CC for Luxembourg.

The Commission therefore appears to be suggesting that the introduction of targeted social measures for "vulnerable" staff could be envisaged to improve the attractiveness of Luxembourg along with a possible CC for this Member State of more than 100, based on out-of-area expenditures. *(See comment 3)*

E. Conclusions

The report concludes that the automatic application of the present Method has shown its value, in particular, by avoiding the interinstitutional tensions and court cases of the past, demonstrating its efficiency, especially in meeting the challenges of the 2020 economic downturn via the exception clause, resulted in moderated salary increases (however, not without deceases in purchasing power), and withstood legal scrutiny in the cases brought before the Court whilst avoiding social tensions and strikes by staff.

The Commission therefore considers that further work should be undertaken in evaluating possible improvements to the system of CCs and the opportunity for broadening the number of Member States in the GSI sample. In the meantime, the Commission will rely on the provisional application of the existing provisions of the Method beyond 2023.

F. AIACE's comments

Comment 1

In its "Defensive Points" document, AIACE has also identified the growing divergence between the sample GSI and a hypothetical GSI for all Member States during the period 2014 to 2021. It considers that there should a further observation period of e.g. 3 years, to confirm whether this divergence is persistent before changes in the sample are contemplated. Changes to the sample do not require amendment of the Staff Regulations as such but are subject to a separate legislative procedure (Commission proposal to Parliament and Council under Article 336 of the TFEU).

Comment 2

AIACE is not opposed to steps to improve the methodology for calculating staff CCs and/or the possibilities for special allowances to staff to cover out-of-area expenditures. It is assumed that the

Commission ideas in this area will have little or no implications for the calculation of pensioner CCs but this will have to be checked.

Comment 3

AIACE has recognised the problem of high accommodation costs in Luxembourg. The introduction of a flat-rate allowance for Luxembourg residents, by its nature targeted at those with lower salaries, would help to compensate for these higher living costs.,

General comment

This report should of course be placed in its context i.e. that since 2014, the Method must appear as favourable to the Member States and that the loss of purchasing power of -10.3% since 2004 for EU staff constitutes the source of relatively important budgetary saving, as has been, moreover, the case for the exception clause and (potentially) the moderation clause, as well as for the solidarity levy.

It should be noted that according to the monitoring of the Method carried out by Ludwig Schubert and continued by AIACE since 2004, the loss of purchasing power before the restoration of the 2.5% from 2020,amounts to -9.5% since 2004 and -6.5% since 2009.

The Commission report places great emphasis on the recruitment needs of the institutions and the deficiencies revealed by its analyses, both in terms of overall needs and with respect to the achievement of geographical balance. This is apparent in its observations on the Method where the accent is very much in suggesting improvements aimed at restoring the attractiveness of the services, strengthening "parallelism" globally (possible changes to the GSI sample) and also rebalancing purchasing power equivalence between different duty stations (account taken of out-of-area expenditures; "social measures" for staff resident in Luxembourg).

However, - with the exception of ideas regarding the sample of Member States, for a social measure, outside the Method, for Luxembourg and for the inclusion of «out-of area expenditure » for CCs – the Commission does not envisage other significant changes to the Method to respond to its statement regarding the lack of attractiveness of salaries. Indeed, it continues to propose the maintenance of the solidarity levy without any precise economic or social justification, whose elimination would allow an increase in purchasing power of between 0% and 4%, especially for AD grades and the top grades, without however affecting salary scales.

As far as pensions are concerned, the Commission makes no particular allusion or reference to this subject, neither with respect to the Method nor to the solidarity levy.

The report's essential message, as set out by AIACE in its own analysis, is that no legislative amendments should be contemplated for the moment, with the existing regime continuing beyond 2023. Moreover, the Commission concludes that the Method has worked well, and no fundamental changes are envisaged to its essential principles and mechanisms. Those possible amendments which are for consideration require further analysis and are of a mainly methodological nature, not all of which would require changes to the provisions of Annex XI.

The reaction to the report of Parliament and Council remains to be seen. Some indication of this might occur on the occasion of the next GTR meeting at the end of June/early July when the Commission representative is expected to present the report to the staff and pensioner representatives of this Group.

5.5.2022