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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(75) 75 final

Brussels, 25 February 1975

COMMISSION PROPOSAL TO THE COUNCIL
ON THE METHOD OF ADJUSTING COMMUNITY
STAFF REMUNERATIONS

COMMISSION PROPOSAL TO THE COUNCIL ON THE METHOD
OF ADJUSTING COMMUNITY STAFF REMUNERATIONS

I. BACKGROUND

On 21 March 1972 the Council laid down the method by which it proposed to carry out the periodic reviews of the remunerations paid to officials and other staff of the European Communities (copy at Annex I a).

The method consists of using two indicators to measure changes in the purchasing power of officials and refers to movements of the joint index used for offsetting cost of living increases. It thus accords perfectly with Article 65 of the Staff Regulations and in the medium term should enable salaries paid to European officials to move in parallel with the average trend in purchasing power for national civil servants. The Council Decision of 19 December 1972 (Annex I b) makes this explicit.

During its trial period the provisional method has given satisfactory results. It has been possible to avoid the usual conflicts with the staff for the last two years.

The Decision has been referred to the Court of Justice on two occasions and the Court's decisions have established principles which are often lacking in such matters (Cases 81/72 and 70/74).

II. REPORT TO THE COUNCIL

For the end of the trial period, the Council has requested:

a detailed review of total emoluments in national and Community civil services;

a comprehensive study on the imputation of cost-of-living increases against gross salaries and on the tax aspects of this.

1. Total emoluments

Point I c of the system for adjusting remunerations reads as follows:

"Annual decision by the Council on the basis of these two indicators. In the third year, the method of calculation will be checked by means of a detailed review of total emoluments in national and Community civil services so as to see whether the system is working properly and whether any structural alterations are necessary".

Figures for total emoluments per head (in real terms), as available when decisions were taken (see Annex II), during the relevant period (reference year 1971) rose by 11.6%, giving an annual rate of 3.7%. Statistical verification of these estimates¹ gives a total increase of 11.4%. The average annual rate for the Community is thus also 3.7%.

¹Now possible for 1972 and 1973, but not yet for 1974.

Total emoluments per head (in real terms) of Community staff in all institutions over the same period have risen in all by 9.6%, giving an average annual rate of 3.1% (see table in Annex III). However, this overall figure overlooks the quite considerable structural effects of staff movements which vary from institution to institution, which are partly due also to enlargement. These structural effects are particularly pronounced in the smaller institutions with relatively light payrolls; in the Commission and the Council the structural effects seem to be less significant and the increase in salaries is much the same (11.1% for the Commission, 12.8% for the Council).

	Total emoluments per head: national civil services	Total emoluments per head: Community officials	
		All institutions	Commission
1971 (1964 = 100)	141.2	130.6	132.5
1974 (1971 = 100)	111.4	109.6	111.1

The comparison of national and Community total emoluments requested by the Council confirms the value of the existing method. Subject to a slight time lag for the Community figure, changes in the two figures can be regarded as parallel over the three-year trial period for which the method adopted by the Council on 21 March 1972 was to be applied.

This is clearly a point in favour of the method. However, the aggregate figure for the three-year period - whether in respect of Council decisions (110.6) or the emoluments per head of Community staff (109.6) - is outside the range for the same period specified in the method (either 114.6 or 117.2 for the specific indicator and 111.4 for total emoluments per head revised). This is because the lower figure in the range has been either the specific indicator or total emoluments, and the Council has consistently opted for the bottom of the range in taking its decisions.

	National civil services		Community institutions	
	Specific indicator	Total emoluments per head, revised	Council decisions	Total emoluments per head
1972/1971	3.6	3.7	3.65	
1973/1972	7.3	3.2	3.3	
1974/1973	3.1 ¹ 5.4 ²	4.1	3.3	
1974/1971	114.6 ¹ 117.2 ²	111.4	110.6	109.6

Conclusion

Although the disparities noted in this table put Community officials at a disadvantage, the Commission does not feel that they warrant any particular structural alterations in the calculation method used hitherto. However, the changes suggested at III,A,1 below would help to reduce these disparities in the medium-term.

¹ Figure used in 1974 subject to review of the data supplied by the United Kingdom Delegation.

² 1974 figure reflecting the correction in the Netherlands and incorporating the Inner London Weighting and Threshold Payments for the United Kingdom.

2. Incorporation of cost-of-living increases

Under the method and under Articles 64 and 65 of the Staff Regulations, weightings are to be applied to offset the rise in the cost of living.

This rule certainly does not mean that the weighting component of an official's remuneration is tax free. Each time the weighting is altered to take account of cost-of-living increases, the staff face a proportionate increase in their income tax. Since under Article 5 of the Regulation on Community tax the weightings apply also to the various tax brackets, these adjustments do not in practice render the tax any more progressive.

If they did, the tax burden would vary with the rate of inflation, and this would not be compatible with a sound tax system. This point is all the more important at the current time when certain of the countries where Community staff are employed are experiencing particularly high rates of inflation.

It is true that in certain Member States salary rises, whether granted to offset cost-of-living increases or as a booster to purchasing power, do suffer from the effects of the progressive tax system. At the same time the relevant governments find that they have to make more and more frequent changes in tax scales. Some of them even go as far as to recast their entire tax systems, as Germany did recently.

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In any case it would be a hazardous undertaking to attempt to follow all these measures taken by the governments of nine Member States on grounds of a chiefly political or socio-demographic order. It would be even more hazardous to take a Community average of these measures.

At a time when inflation is running at quite inconsistent rates (6% in Germany, 25% in Italy), it would be quite inconceivable to penalize European officials who are suffering most from inflation by progressively raising their tax burden. The only possible system, then, would seem to be to keep the cost-of-living aspect separate from the rest and unaffected by progressive taxation so as to preserve the principle that staff in the various places of employment should have equivalent purchasing power; Article 64 of the Staff Regulations explicitly refers to this principle.

Conclusion

It is therefore proposed that the existing rules be maintained, so that weightings would be applied to offset cost-of-living increases in the various places of employment while increases given to augment purchasing power would be incorporated direct in the salary scales.

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III. COMMISSION PROPOSAL

A. ANALYSIS AND IMPROVEMENT OF THE EXISTING METHOD

Experience over the last three years and the studies reported above indicate that the current method should be kept on. A number of problems which have been found can be solved by appropriate improvements.

The problems are the following:

1. Medium-term parallelism

A systematic insistence on taking the figures at the lower end of the range means, when the indicators are reversed, that in the medium-term increases are not kept parallel.

This could be solved if, each time the annual decision was taken, the aggregate medium-term range (covering, say, five years) was compared with the aggregate of the decisions taken during the same period.

2. Changes in total emoluments per head (in real terms) of national civil servants

The fact that when the annual decisions are taken only estimates of total emoluments per head are available has not given rise to any major difficulties. During the trial period of the method, the differences between estimates and outturns have not been significant. Comparison of the figures for the last five years shows that the estimates tended to be on the conservative side (see Annex IV).

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To ensure that underestimates or overestimates do not have excessive effects when aggregated over a lengthy period, a self-correcting mechanism is proposed. The statistical method is set out in Annex V. If this method were applied, it should no longer be difficult to estimate total emoluments per head.

When deciding what to include in total emoluments, our aim is still to establish trends in central government bodies in each Member State (see point I b of the Decision of 21 March 1972). Until statistics for all the Member States make this possible, we should continue using those covering all administrative authorities.

3. Specific indicator

Despite the efforts both of the national delegations and of the Commission's own staff, the indicator for the trend of purchasing power of national civil servants continues to raise serious methodological difficulties.

The improvements set out at point I (a) of the Decision of 21 March 1972 have not yet been fully carried through. Of the remaining problems, the following are worth mentioning:

- (i) how to determine the income components to be taken into account in order to give a correct measure of the purchasing power of civil service salaries;

- (ii) how to decide what departments are to be represented (ministries, central authorities, etc.) with a view to achieving country-to-country harmonization and a suitable degree of correspondence with the Community departments;
- (iii) what relative weight in the indicator to give to each grade, step, category, and family situation, so as to break down the indicator by category and measure the degree of non-linearity in increases and the difference between gross and net increases;
- (iv) how to calculate the net movement of the indicator so as to take account of all taxes and social security contributions and of any deductions made, and allowances given in calculating the taxable amount.

Experience has shown that considerable effort will be required to overcome these problems.

With this in view it is proposed that the Statistical Office of the European Communities chair an advisory working party of experts from national statistical offices and from the Commission. The new working party which will be given the job of solving the above problems, will inevitably be of a permanent nature. It is very rare for Member States to use a uniform method for adjusting public-sector salaries. On the contrary, there are year-to-year and state-to-state variations in method. It would therefore seem necessary for the working party to meet each year in spring, before

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the actual annual review, so as to consider any particular methodological problems arising in the Member States (e.g. Inner London Weighting). This will be the only means of ensuring that the specific indicator remains valid over time.

B. ALIGNMENT OF ADJUSTMENTS ON REFERENCE PERIODS

For the foregoing reasons, and having carried out the checks requested by the Council, the Commission has concluded that the existing method of adjusting remuneration could well be continued.

However, problems constantly arise from the time lag between national decisions on civil service salaries and the Council's decisions on Community salaries.

The Commission would accordingly propose that the Council deal with this problem by a system of prospective or advance increases. This would also be more in line with trends now seen increasingly in a number of civil services in the Member States.

A prospective system for the Community might take the following form:

1. Compensation for cost-of-living increases

In theory there are two possibilities:

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- (i) either salaries would be increased as soon as the cost of living has risen by a predetermined amount;
- (ii) or adaptations would be made at fixed intervals at each place where Community staff are employed, in line with the rate of increase in private consumer prices forecast for the reference period.

In view of the differences in the rates of inflation at the various places where the Communities employ staff and of the need for programmed increases, the Commission would propose, without prejudice to Article 65(2), that the second formula be taken. The Council would take its annual decision on the basis of consumer price forecasts for each country. The rates would be split into equal parts whose number would be determined by reference to the ratio between the forecast rate and a threshold of 2.5%. There would be at least two and at most six adjustments per year, each involving adjustment of the weightings. The effective dates would be the end of the period in which the increase in prices was established.

Thus the first adjustment would be made on 1 September (two-monthly increases) or 1 January (six-monthly increases).

2. Increase in purchasing power

The Commission proposes that the purchasing power of Community staff salaries be increased on 1 January each year. The figure would be based on the

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Community average of forecasts of total emoluments per head (in real terms) of civil servants for the following year, established from the Member States' economic budgets.

3. Corrections

Since these increases are to be based on forecasts, they will have to be corrected subsequently. The corrections will be made by the existing method, allowing for the improvements set out at A above, as follows:

- (i) compensation for the cost of living would be given with effect from 1 July each year by reference to the joint index provided for in Article 65 of the Staff Regulations;
- (ii) purchasing power would be increased in line with the two indicators used in the current method, i.e.:

the specific indicator;

total emoluments per head (in real terms) of civil servants.

The corrections will be made with effect from 1 January, at the same time as the increase for the following year is given.

4. Equivalence of purchasing power as between the various places of employment

The equivalence of the purchasing power of Community staff in the various

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places of employment will normally be ensured by the current method and by reference to the same principles as have applied hitherto.

Nevertheless, appropriate inquiries should be made at regular intervals to check whether the ratios between weightings properly reflect purchasing power equivalences as between places of employment.

5. Transitional arrangements for the changeover to the new system

The Commission believes that the system outlined above should take effect on 1 July 1975.

If it is implemented, exceptional measures will have to be taken to preserve staff salaries at a suitable level for the period from 1 July 1974 to 1 July 1975. The following plan is proposed:

- (i) As regards compensation for the rise in the cost of living, a first adaptation will be made to the weightings with effect from 1 July 1975 by reference to the first half of 1975. A second decision will be taken on the basis of price forecasts for 1976, the first adjustment being incorporated with effect from 1 September 1975 in the weighting of the country or countries in which an increase of at least 15% in consumer prices is forecast for 1976.

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(ii) As regards increases in purchasing power, a first amount will be incorporated in the salary scales on the basis of the two indicators used under the existing method, allowing for the improvements set out at III, A, above. This will take effect on 1 July 1975 and will relate to purchasing power trends in civil service salaries from 1 July 1974 to 1 July 1975.

A second adjustment would be made on 1 January 1976 by reference to forecasts for total emoluments per head of civil servants in 1976.

C O P YEUROPEAN COMMUNITIES

Brussels, 23 March 1972

The Council

R/987/72

Summary of decisions taken by the Council at its
192nd meeting, held on 20 and 21 March 1972Calculation method for the periodic review of the remunerations
of officials and other servants of the European Communities

The Council approved the following text:

SYSTEM FOR ADJUSTING REMUNERATIONSINTRODUCTION

The system described below will be applied for a three-year trial period. It accords with Article 65 of the Staff Regulations as it now stands.

I - PURCHASING POWER(a) Specific indicator

This is an index of changes in civil service salaries in the Member States compiled each year for the preceding year by the Statistical Office of the European Communities according to the method applied hitherto, improved as follows:

- Greater degree of harmonization of the methods of calculation used by the various national administrations.
- The various statistical components will be broken down for Categories A, B, C and D.
- Each delegation will inform the Commission of the components which make up the remunerations in its civil service and of any change therein.
- The Commission will be informed in detail of how the annual indices of civil service salaries are calculated.
- Whenever the Commission has doubts as to any component used in preparing the index of civil service salaries, the relevant delegations will be contacted and will supply the necessary explanations.

It is understood that the Commission will keep the staff representatives fully informed as regards the statistical components of the indicator.

(b) Indicator of total emoluments

This is an indicator of total emoluments per head of civil servants as published in the national accounts

It is understood that the final objective will be for each Member State to supply the figures provided for in line R 10 S/61 of the European System of Integrated National Accounts.

(c) Procedure

Annual decision by the Council on the basis of these two indicators. In the third year, the method of calculation will be checked by means of a detailed review of total emoluments in national and Community civil services so as to see whether the system is working properly and whether any structural alterations are necessary.

(d) Effective date

To take effect at the end of the reference period.

When the Council takes its decision on the period from 1 July 1971 to 30 June 1972, a special sum will be given. It will facilitate the changeover from the old method to the new and will provide compensation, as an exceptional measure for losses resulting from a method which does not give effect to adjustments of remuneration in the middle of the reference period.

(e) Form of adjustment

Direct incorporation in the salary scale.

II - COMPENSATION FOR COST-OF-LIVING INCREASES¹

(a) Indicator

Joint index

(b) Timing and effective date

Adjustment under Article 65(1) with effect from the end of the reference period, without prejudice to application of Article 65(2).

¹To be applied uniformly at all places of employment in Belgium and Luxembourg.

(c) Form of adjustment

Application of weightings for this three-year trial period.

The Council also agreed to insert the following item in its minutes:

"1. It is understood that application of the new method for a three-year trial period cannot give rise to "vested rights".

2. The application of weightings to compensate for cost-of-living increases is approved for the three-year trial period. The Commission is invited:

to make a comprehensive study on the imputation of cost-of-living increases against gross salaries and on the tax aspects of this;

to make a proposal in the matter to the Council before the end of the three-year period."

EUROPEAN COMMUNITIES

The Council

Brussels, 5 January 1973

R/2935/72

NOTE

Summary of decisions taken by the Council at its
221st meeting, held on 18 and 19 December 1972

OTHER BUSINESS

- (d) System for adjusting remunerations paid to officials and other servants of the European Communities; dialogue between the Council and the staff representatives

The Council approved the following text:

"The Council

- I. believe that the Regulation of 12 December 1972 does not prejudice the interpretation of its Decision of 21 March 1972 on the system for adjusting remunerations and confirms that this system forms part of a policy with the aim of guaranteeing, in the medium term, that remunerations paid to European officials will move in parallel with average salaries paid in national civil services;
- II. considers that the dialogue procedure needs improving;
- III. notes the following statement made by the Commission on 13 December 1972:

1. In January the Commission intends to hold talks with the representatives of the Member States, the representatives of the other institutions and representatives of the trade unions and staff associations of European officials.

The aim of the talks will be to seek improved methods of preparing and adopting decisions adjusting the remunerations of the staff of the enlarged Communities.

2. The Commission is proposing to raise the following points at these talks:

- (a) possibilities for simplifying the decision-making process in three years out of four;
- (b) ways of improving and extending the dialogue procedure;
- (c) the possibility of introducing a conciliation or mediation phase, if appropriate.

3. The Commission will make proposals to the Council following these talks, before 31 March 1973;

- IV. instructs the Permanent Representatives Committee to report at the beginning of June 1973 so that the Council can reach a decision before 1 July 1973 on the proposals to be presented by the Commission to follow up the statement set out above."

INCREASE IN REAL TERMS OF GROSS SALARIES PER HEAD OF CIVIL SERVANTS FROM 1964 TO 1974

Country	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Germany	100	106.7	111.7	113.6	117.9	128.2	138.4	150.7	154.0	161.2	169.8
France	100	102.4	104.9	107.7	115.5	120.8	126.7	131.6	135.5	139.4	142.2
Italy	100	108.0	110.7	110.6	114.2	115.3	115.9	132.0	138.2	141.4	140.9
Netherlands	100	109.4	115.3	122.9	137.94	145.0	153.3	161.9	167.9	172.1	181.0
Belgium	100	107.5	112.0	116.8	121.6	130.0	140.0	147.5	163.5	170.9	179.0
Luxembourg	.	.	.	.	.	.	.	.	.	.	.
United Kingdom	.	..	..	.	.	100	103.9	109.5	115.3	117.3	123.5
Ireland	.	.	.	.	.	100	106.9	113.2	120.8	127.4	129.0
Denmark	.	.	.	.	.	100	107.0	114.9	110.1	109.7	112.4
EEC 6	100	105.7	109.5	111.9	117.1	123.5	130.6	141.2	146.4	.	.
EEC 9	100	.	.	.	.	.	.	.	..	151.0	157.3

TREND OF TOTAL EMOLUMENTS PER HEAD OF EUROPEAN OFFICIALS

(1974/71)

	Nominal per head	Deflationary index	Real per Head	1974 staff strength
Commission	148.07	133.33	111.055	8 430
Council	149.27	132.3	112.83	1 167
Parliament	134.49	132.3	101.66	1 208
Court of Justice	137.26	132.3	103.75	235
ESC	157.23	132.3	118.84	279
Total	145.26	133.06	109.63	11 319

Increase in real terms of gross salaries per head
of civil servants

Estimates and outturns

Country		Year-to-year change (%)					Aggregate figures %		
		1970/ 1969	1971/ 1970	1972/ 1971	1973/ 1972	1974/ 1973	1974/ 1969	1973/ 1969	1974/ 1971
Germany	E	7.0	8.0	5.7	4.1	5.3	33.9	27.2	15.9
	O	8.0	8.9	2.2	4.7	.	32.5	25.8	12.8
France	E	2.9	3.4	2.9	3.2	2.0	15.2	12.9	8.1
	O	4.9	3.8	3.0	2.	.	17.7	15.4	8.1
Italy	E	-0.2	9.6	0.7	1.7	-0.3	11.7	12.0	2.1
	O	0.5	13.9	4.8	2.3	.	22.2	22.5	6.8
Netherlands	E	6.9	5.9	4.3	5.1	5.2	30.6	24.1	15.3
	O	5.7	5.6	3.7	2.5	.	24.8	18.6	11.7
Belgium	E	4.5	5.1	9.4	6.1	4.7	33.5	27.5	21.5
	O	7.7	5.4	10.8	4.5	.	37.7	31.5	21.3
Luxembourg		.	.	.	.	.	.	.	.
United Kingdom	E	.	.	.	2.8	5.3	24.9	18.6	14.0
	O	3.9	5.5	5.3	1.7	.	23.5	17.3	12.8
Ireland	E	.	.	.	3	1.3	27.1	25.4	12.3
	O	6.9	5.9	6.7	5.4	.	29.0	23.7	14.0
Denmark	E	.	.	.	3.2	2.5	16.5	13.6	1.3
	O	7.0	7.4	-4.2	-0.4	.	12.4	9.7	-2.2
EEC - 6	E	4.0	6.6	3.9			23.7	18.8	11.6
	O	5.7	8.2	3.7						27.3	22.3	11.4
EEC - 9	E				3.2	4.1			
	O				3.2	.			

E : estimates; : O = outturns

STATISTICAL VERIFICATION OF THE INDICATOR OF
TOTAL EMOLUMENTS

The indicator of real per capita emoluments of civil servants has been checked by comparing outturns with the estimates regularly put forward by the Commission for the current year; the statistical base ran from 1969 to 1973 in accordance with Table 1 in Annex IV to document COM(74) 1880 final of 14 November 1974.

The following table sets out, in the form of percentage variations over the preceding year, the way this indicator has moved for each member country and in aggregate terms at Community level. Only for 1974 are the statistics not yet available. The aggregate increase in the indicator is also given, both for the whole period under review and for the period covered by the current method of adjustment. The E figures are the Commission's annual estimates and the O figures are the outturns.

If these estimates were good ones, aggregation of them should in broad terms give the same result as aggregation of the outturns. This is indeed the case, the + 11.6% (E) being virtually the same as the + 11.4% (O) for the period from 1971 to 1974. Taking the aggregation as a whole, the + 23.7% estimates lie below the + 27.3% outturns.

If we ignore 1974, since no statistics are yet available, aggregation for the period from 1969 to 1973 gives outturns of + 22.3% and estimates of + 18.8% for the Community.

Thus our estimates were clearly on the conservative side and were overtaken by events.

The self-correcting mechanism can best be explained by means of an example. Let us assume that in year t_1 the total emoluments index is estimated at 104 ($t_0 = 100$), giving a change of +4%. One year later, an estimate for year t_2 gives an index of 108 ($t_0 = 100$), but the new statistics give an outturn for year t_1 of 105. The percentage change in t_2 is estimated as $108 \div 105 = 2.9\%$. At this point a self-correcting mechanism would come into play: since the outturn for t_1 is not the same as the estimate for that year, the estimate for t_2 must be related not to the new statistical base but to the former estimate so as to give a year-to-year change which will be consistent with the preceding changes. Only then will the aggregate estimated change be the same as the actual outturn.

	t_0	t_1	t_2		t_1	t_2		Cumul
t_1	100	104		Estimates :	4%	3.8%	$\frac{(108)}{(104)}$	8%
t_2	100	105	108	Outturns :	5%	2.9%	$\frac{(108)}{(105)}$	8%