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Draft sessional report

Addendum

Item 6(b): Post adjustment issues: results of the 2016 round of surveys; report of the Advisory Committee on Post Adjustment Questions on its thirty-ninth session and agenda for the fortieth session

1. The Commission considered the report of the Advisory Committee on Post Adjustment Questions on the work of its thirty-ninth session, held in New York from 20 to 27 February 2017 (see ICSC/84/R.7). The report addressed:

- (a) The approved methodology applied to the 2016 round of place-to-place surveys for cost-of-living survey comparisons between New York and the other seven headquarters duty stations and Washington, D.C.;
- (b) The collection of survey data in New York for the purpose of cost-of-living comparisons;
- (c) The Advisory Committee's recommendations on the results of the surveys conducted at the headquarters duty stations Geneva, Montreal, London, Madrid, Montreal, Paris, Rome and Vienna, and Washington, D.C.;
- (d) The recommendations of the Advisory Committee on aspects of the approved methodology that should be applied to surveys conducted in field duty stations; and
- (e) Other business.

Methodological aspects of the cost-of-living surveys

2. In reviewing the results of the recently conducted baseline surveys at the eight headquarters duty stations and Washington, D.C., and making recommendations thereon, the Advisory Committee confirmed that all aspects of the surveys had been conducted by the secretariat in accordance with the methodology approved by the Commission for the 2016 round of surveys, which featured a number of significant enhancements to the existing methodology, such as the adoption of the European Comparisons Program (ECP) as a source of specifications and price data (for covered group I duty stations), the re-design of survey instruments, the revision of the basic heading structure of the post adjustment index (PAI), the harmonized specification of the out-of-area (OA) weight for all duty stations, the treatment of housing expenditures incurred outside of the country of the duty station of assignment, the change in the procedure for calculating rent indices, and the expansion of the target population for the survey to include staff at the D-2 grade, as well as staff of

non-UN common system organizations. Other aspects of the methodology included standard issues, such as the selection of outlets, price data collection and processing, and the treatment of sale prices and sales taxes. The Advisory Committee took note of, and recommended for approval by the Commission, some modifications to the methodology dictated by conditions in the field during data collection.

3. The Advisory Committee also took note of the levels of participation in the staff expenditures survey and confirmed that the estimates of the new set of common weights for the 2016 round exceeded the precision levels set by the Commission, and thus recommended that they be approved. The Advisory Committee concluded that the staff expenditures survey provided the basis for statistically reliable estimates of common expenditure weights, and hence accurate and valid survey results. Finally, it recommended for approval by the Commission the proposed adaptation of the approved methodology for application to field duty stations.

4. The Advisory Committee reported that all the components of the cost-of-living survey in New York had been carried out in accordance with the guidelines and procedures approved by the Commission and that the data collected provided a sound basis for making cost-of-living comparisons between New York and other duty stations. The Advisory Committee also reported that the cost-of-living surveys conducted in Geneva, Montreal, and Washington, D.C., had been conducted in accordance with the approved methodology, and recommended for the Commission's approval, the survey results for the three duty stations where price data were collected by the ICSC secretariat. However, the Committee decided to defer recommendations regarding the survey results for Rome, Vienna, Paris, London, and Madrid, pending its review of the results of a comprehensive price survey to be conducted by the secretariat in Brussels, as part of a broader research effort aimed at assessing and accounting for any systemic differences in the price data, that may be attributable to the transition from the ICSC to the ECP survey systems.

5. In reviewing the analysis and results of the surveys, the Advisory Committee also considered the reports of the consultants and the independent experts on various aspects of the survey process, including issues related to the collection and processing of price data for the various duty stations. In particular, the Advisory Committee took note of the suggestions and recommendations of the independent experts regarding the comparability of the external rent data provided by the International Service for Remunerations and Pensions (ISRP) across duty stations, the extent to which the neighbourhoods used for the market rent surveys were consistent with staff residential patterns, the determination of outliers during the processing of price data, and the comparability of outlets, as well as of specific items in the basket of goods and services, such as tuition fees and airfares. The Advisory Committee also took note of the secretariat's responses to the suggestions of the independent experts, including the fact that most of these suggestions were taken into account in the analysis of the survey data.

Other issues

6. The Advisory Committee noted the appeal of the representatives of Budapest-based organizations as well as staff federations, for a review of the classification, for post adjustment purposes, of Eastern European duty stations, in particular Bulgaria, Hungary and Romania, which had been classified by the Commission as group I since 2007. They reiterated the previously expressed view that staff serving in these duty stations continued to experience erosion of the purchasing power of salaries primarily because they were obliged to incur expenditures such as tuition fees and rent in non-local hard currencies. They acknowledged that conducting more frequent cost-of-living surveys in these duty stations, as approved by the Commission, captured more precisely the evolution of the cost of living, but pointed out that this did not completely address the problem of significant expenditures made in non-local currencies, against which the local currency had been historically weak. The representatives requested consideration of remedial measures, such as the application of an operational rule for field duty stations that would stabilize the net take-home pay in United States dollars or the possibility of creating a hybrid classification of duty stations, combining features of group I and group II duty stations. They also requested that the Commission undertake a mission to such duty stations to conduct a first-hand assessment of the cost-of-living situation experienced by United Nations common system Professional staff, preferably prior to the conduct of the next cost-of-living surveys.

Discussion in the Commission

7. The representative of the Human Resources (HR) Network noted, on behalf of the organizations, the report of the Advisory Committee and the results of the cost-of-living surveys at headquarters duty stations and Washington, D.C. She added that despite initial transition challenges, any steps to make better use of objective externally available data in the determination of the cost of living should be supported, and as such, encouraged the ICSC secretariat to continue its research efforts aimed at ensuring like-to-like comparison of prices between ECP covered duty stations and New York, in collaboration with all stakeholders, as described in the report. She welcomed ACPAQ's decision to defer recommendation on the survey results for the ECP covered duty stations until the proposed research programme was completed.

8. Referring to the low survey results for Geneva, she pointed out that this negative outcome would further exacerbate the current overlap of the salary scales between the General Service category and Professional staff categories and hence, did not concur with the suggestion to approve the survey results at this stage, until a number of details had been further clarified, and transparent communication for staff about the origin of any salary reductions be carefully prepared well in advance of an implementation date. She sought further clarification on the extent of the envisaged salary reductions and their origin, particularly given that external consumer price indices and anecdotal evidence seemed to suggest that the overall reduction in the inflation in Geneva, while evident, was much less than what the survey results seemed to indicate. She took note of the other recommendations in the document for the survey results in New York, Montreal and Washington, D.C.

9. The representative of the Chief Executive Board for Coordination (CEB), on behalf of UNESCO, raised concerns about the comparability of the outlets and the price data for ECP-covered duty stations and New York. Regarding outlets, he pointed out that the list for New York was developed in a manner that reflected the expenditure patterns of international staff, while the ECP outlets were based on those of national populations. Furthermore, quoted ECP prices appeared to be much lower than the reality in the shopping experience of international staff, with respect to specific items, adding that for some items, the ECP data might not be reflecting market prices, but maximum reimbursement rates set by national legislation in some of the ECP covered countries. He also noted significant variation in price data for some items across the designated duty stations, which might suggest that the item specifications might not have been strictly adhered to in all duty stations. He added that the decision by ACPAQ to defer recommendation about the survey results for ECP covered duty stations until a comprehensive price survey was conducted by the ICSC secretariat in Brussels to estimate a more adjustment factor to account for possible transition effects was, in fact, recognition of these comparability problems.

10. The President of FICSA welcomed ACPAQ's decision to defer recommendation on the survey results for the ECP covered duty stations until a full-fledged survey could be conducted in Brussels, using the ICSC survey methodology, and reiterated the willingness of FICSA to participate in that exercise. He expressed doubt that an adjustment for all ECP covered duty stations based on results from the Brussels survey was the best solution, but acknowledged that conducting a full ICSC survey in the other ECP headquarters locations was not feasible in a short time frame. He added that the effects of changes in the methodology were quite severe and contributed to the large discrepancies in the survey results. He therefore called for a revision of the new methodology as a way of resolving the many issues encountered during data analysis. He further stated that data for non-ECP duty stations could still be revisited with the aim of improving survey results by resolving some comparability issues even in these duty stations. In the case of Geneva, he expressed concern about the negative impact of a drastic reduction in post adjustment, including major adjustments in expenditure and residential patterns that might lead to further decreases in post adjustment in the future. He urged the Commission to reinstate the 5 percent augmentation of the survey PAI (as part of the gap closure measure), which was eliminated at the eighty-first session of the ICSC, despite strong opposition from staff representatives, organizations and a few Commission members; or to freeze the multiplier for Geneva until the lower PAI caught up with the prevailing pay index. The President of CCISUA strongly supported FICSA's statement regarding the survey result for Geneva and its impact on staff salaries, as well as UNESCO's views about the lack of comparability in the price data for New York and ECP covered countries. He stated that the adjustment of Geneva salaries was an important political issue, and hence it would be prudent for the Commission to consider mitigation strategies, so as not to exacerbate staff-management tensions, adding that confidence

in the post adjustment system could be tarnished in the view of staff if these negative results were to be implemented in their current form. He also pointed out that working hours in Geneva were 22 hours more per month than in New York and that this needed to be taken into account. The representative of the International Civil Aviation Organization (ICAO) stated that the medical premium used in the calculation of the medical insurance index did not appear to reflect the annual increase in the premiums between 2010 and 2016 for Montreal-based staff.

11. The President of UNISERV found it difficult to understand such sharp decreases in the post adjustment for field duty stations such as South Sudan, where staff were risking their lives daily. He also found it counter-intuitive that Geneva survey results were so low while the local CPI decreased only by less than 2.5 per cent coupled with a sharp increase in school fees, rental costs and utilities. He added that Geneva staff members would experience an overall decrease in salaries of about 15 per cent from the cumulative effects of the surveys and the new compensation package. He further stated that while there were no objections to the ICSC statistical methodology, serious issues remained as to the implementation of survey results. In light of these observations, he appealed to the Commission to freeze the pay index until the PAI caught up with it. He also drew the attention of the Commission to the issue of duty stations such as Budapest where staff members' salaries, which were paid in local currency, were continuously losing purchasing power since expenditures on many items, such as education and rent, were made in foreign currency. Representatives of all staff federations highlighted the difficulties they would face in trying to explain these results to their constituencies, and, in this connection, asked the secretariat to prepare a document, explaining the results and clearly identifying key factors contributing to the changes in the post adjustment indices. They further expressed concern that staff participation in future cost-of-living surveys would dramatically decline following such negative results in almost all headquarters duty stations.

12. The representative of the International Labour Organization (ILO) fully endorsed the position of the HR Network and the other organizations, as well as the staff federations, regarding the survey result for Geneva, and its impact on the morale of staff the competitiveness of organizations with large staff population in the duty station. Drawing a parallel with the recently adopted compensation package, he noted that advocating for the implementation of this package, although challenging, was made possible by the organizations, as there was a clear justification and rationale behind the changes, as well as transition measures that were established to mitigate the negative effects of the changes, which helped staff understand and ultimately accept them. He stressed that the expected promulgation of the negative survey result for Geneva was quite the contrary, as organizations and staff federations did not have the elements of information and analysis needed to explain the results in a way that would facilitate their acceptance by staff. The representative of WIPO supported the position of other organizations and staff federations on the current issue of low survey results, adding that the proposed salary reduction for Geneva would also undermine WIPO's competitiveness and further limit its ability to attract talent for key business areas, and would be difficult to explain to staff at a time that the organization was being praised for its efficiency. The representatives of the United Nations and the United Nations High Commissioner for Refugees (UNHCR) strongly supported the positions of the HR Network and staff federations on the issue of the impact of the negative survey results on staff. They pleaded for a postponement of the implementation of surveys results, and also for a longer transition period in the implementation of the personal transitional allowance. Furthermore, the UNHCR representative welcomed an ICSC mission to Hungary where the post adjustment multiplier had declined since 2008 from more than 80 per cent to currently below 15 per cent.

13. In response to questions from participants, the secretariat explained that the principle underlying the post adjustment system was the equalization of the purchasing power of salaries paid to staff in the various duty stations relative to those paid to their counterparts in New York, the base of the system. Therefore, it was possible for post adjustment to decline in a duty station experiencing local inflation, as long as such inflation was exceeded by that measured in New York. It stressed that the results of the surveys for Geneva, Montreal, and Washington, D.C., were a true reflection of the cost of living experienced by staff, relative to New York, as they were based on price data collected from local retail outlets and expenditure data collected from staff based at the duty stations. Local survey committees (comprising organizations and staff associations) were actively involved at every stage of the process, from development of the list of outlets, data collection, to the review of the secretariat's analysis of the survey data by consultants and experts

representing the various duty stations. The surveys were administered strictly according to the methodology, guidelines and procedures approved by the Commission for the 2016 round of surveys, as recommended by ACPAQ, again with full participation by organizations and staff federations. The secretariat referred to its presentation of the document where it demonstrated that the survey results were influenced by a combination of factors, including the a higher inflation in New York than in the concerned duty stations; sustained strengthening of the United States dollar against the world's major currencies, and the necessary and appropriate changes in the methodology of PAI calculations. The secretariat informed participants that it would prepare a package of information providing detailed explanations of the results and the impact of each of the factors that led to them. This would be circulated to staff at large, as well as to other stakeholders with responsibility for explaining the results to staff.

14. The secretariat pointed out that the methodological changes for the 2016 round, were reviewed and discussed during ACPAQ sessions by all stakeholders over many years before final recommendations were submitted for approval by the Commission. The changes and their overall impact on the post adjustment index were also presented in workshops and participants agreed that the new methodology represented an improvement in terms of accuracy, transparency, and relevance, and that they should be accepted regardless of the outcome. The secretariat emphasized that the survey results were effective as of the survey date and their impact on salaries could be determined only on the date of implementation, when the survey results would be updated to account for inflation and exchange rate fluctuations, and then compared to the prevailing pay index. In the case of Geneva, this comparison would indeed lead to a salary reduction of 7.5 per cent in United States dollar terms or about 6.7 per cent in Swiss Franc terms, as of the survey date (October 2016). The precise magnitude of the salary reduction could not be determined until the necessary updating of both the survey result and prevailing pay index from the survey date to the survey result implementation date was carried out.

15. In response to specific issues raised about the seeming lack of comparability of the price data, particularly for the ECP covered duty stations, the secretariat emphasized that the ECP was a reputable programme that produced data of high quality, used for various purposes, including salary adjustments, for expatriate staff of many European Union member states. The seeming lack of comparability of the price data encountered by the secretariat at the data analysis stage was attributable not to the quality of the data, but to the lack of the repertoire of information and tools usually employed by the secretariat to ensure fair price comparisons between New York and the duty station. For ECP covered duty stations, the secretariat had average price data collected under the ECP, along with some ancillary information. The list of outlets, or information about their market segmentation, was not available. However it was clear that, for some items, the large disparities between the ECP and ICSC collected prices could be attributed, at least in part, to factors other than pure differences in prices. The Brussels price survey and the other comparative studies of the ECP and ICSC price data in Washington, D.C., New York, and Geneva/Bern, were proposed by ACPAQ as mechanisms by which to identify and adjust for the above-referenced sources of variation, in the short term; and to better align the two survey systems in a manner that would allow direct price comparisons in the long term. In accordance with ACPAQ's recommendation, all stakeholders would be fully engaged in this exercise. With regard to the question from the ICAO representative regarding medical insurance premiums, the secretariat clarified that the seeming lack of growth in the medical insurance index in the face of rising premiums paid in local currency could be attributed to the sustained depreciation of the Canadian dollar relative to the United States dollar.

16. The Chairman of the ICSC acknowledged the request of the representatives of organizations and staff federations for the secretariat to prepare a detailed and non-technical document, explaining the results and pinpointing key factors related to changes in the post adjustment indices that would be disseminated to staff and all stakeholders. He further acknowledged the need to allow sufficient time for the results to be communicated to staff members in the various duty stations. He concurred with all participants that the methodology that led to these results was not in question, adding that the issue at hand related to the implementation of the results, and, in this regard, called for careful consideration of the reasons for delaying or not implementing the results. He added that PAIs by definition increased or decreased to reflect changing macro-economic circumstances. When they increased, salary increases were automatically granted, but when they decreased significantly, a number of operational rules established by the Commission were invoked to stabilize and protect staff salaries for a period of time. In the case of Geneva which had previously been used as the base of the post

adjustment system, the impact of macro-economic circumstances on salaries was not new, and thus it would be difficult to justify not implementing the survey results.

17. The Chairman of ACPAQ noted that in its presentation, the secretariat explained all key factors that led to the survey results for Geneva. He pointed out the fact that Geneva had been overpaid for a number of years as the pay index was consistently higher than the PAI. He added that the changes in the methodology, adopted by the Commission, which were in some cases requested by the organizations, were not aimed at reducing staff salaries, but rather to streamline and enhance the post adjustment system as a whole. A member of the Commission stressed the importance of high response rates for the reliability of survey results, and acknowledged the efforts made by all stakeholders through the years to arrive at such satisfactory response rates in the surveys. In reply to his question regarding the impact on the response rates of the expansion of the target population to staff at the D-2 grade and of non-United Nations common system organizations, the secretariat explained that the response rate for this category was lower than the average for the duty stations, and that, since the staff population in these categories, introduced as a precautionary measure in case of low turnout from United Nations staff, was relatively small, their inclusion did not noticeably impact the results. Another member of the Commission questioned some of the results presented, especially in the case of Geneva where the decrease in the survey results did not appear to be commensurate with the only slight decrease in local inflation. He added that staff members living in neighbouring France were subject to a lot of restrictions by local authorities, such as with respect to tax regulation and requirements for residency and home ownership. He called for a delay in the implementation of the results until further studies were conducted by the secretariat.

18. The Commission agreed that the methodology followed by the secretariat was sound and that the results were carefully studied at ACPAQ before they were recommended to the Commission. They pointed out that the surveys were the only mechanism for establishing purchasing power parity of salaries, which was invariably distorted between surveys by the disparate evolutions of macro-economic conditions in the various duty stations. They noted that similar or worse salary reductions had been promulgated in accordance with the established operational rules for other duty stations in field duty stations such as South Sudan, where staff risked their lives on a daily basis. They stressed that with the high response rates realized in the surveys, the results could be considered reliable and valid, and hence should be approved. With regard to the implementation of the results, they called for a careful analysis of the situation at hand to come up with appropriate solutions that fulfil the triple-objective of transparency, fairness, and cost-effectiveness, while still adhering to the universal principles guiding the work of the Commission.

Decisions of the Commission

A. Methodological aspects of the cost-of-living surveys

19. The Commission:

(a) Noted that the collection and processing of the data from the 2016 baseline cost-of-living surveys were carried out in accordance with the approved methodology;

(b) Noted that the adjustments of the approved methodology by the secretariat with regard to data collection and processing were justifiable in the light of the reported circumstances;

(c) Approved:

(i) The new common weights for the 2016 round of surveys based on results of the household expenditure surveys;

- (ii) The continued use of size adjustment factors in the calculation of the rent index until the reliability of average rents for alternative dwelling living space sizes in New York was assured;
- (d) Approved that the secretariat be granted the flexibility to:
- (i) introduce minor modifications to the staff expenditure survey questionnaire to be used in the 2016 round of surveys, in the light of experience acquired during the 2016 baseline cost-of-living surveys; and
- (ii) make minor modifications to the specifications of some items and to remove from the market basket any items deemed difficult to find or to compare across markets, on the basis of experience acquired during the 2016 baseline cost-of-living surveys.

B. Results of baseline cost-of-living surveys

20. The Commission decided:

- (a) To approve the results of the baseline cost-of-living surveys conducted in 2016 for Geneva, Montreal and Washington, D.C., as recommended by the Advisory Committee, and summarized in the table below; and
- (b) That the results for these three duty stations be implemented on 1 May 2017, taking into account inflation and exchange rate fluctuations between the survey date and the date of implementation of the results.

Summary of the results of the 2016 cost-of-living comparisons between New York and Geneva, Montreal and Washington, D.C., as of the survey date

Country	Duty station	Survey month (2016)	As of Survey date		Difference (percentage) (1)/(2)
			Survey post adjustment index (1)	Updated post adjustment index (2)	
Canada	Montreal	October	135.3	134.3	0.7
Switzerland	Geneva	October	165.9	172.4	-3.8
United States	Washington, D.C.	September	144.0	142.3	1.2

21. The Commission decided to request the secretariat to:

- (a) Conduct research, in collaboration with partner agencies, as well as organizations and staff federations, including a price survey in Brussels, supplementary price data collection via a mini-survey in New York, and analysis of the Brussels price data, as well as other such data as may be available, with the objective of identifying and adjusting for any differences in the price data that may be attributed to the transition from the ICSC to the ECP survey systems;
- (b) Use the research findings to estimate a survey transition factor that can be used to adjust the in-area (excluding Housing) indices of all ECP-covered duty stations (London, Madrid, Paris, Rome and Vienna); and

(c) Submit the results of the research for review by ACPAQ and final recommendations for the Commission's consideration at its eighty-fifth session.

C. Application of methodology for field duty stations

22. The Commission decided to:

(a) Approve the methodology to be used for data collection and processing for field duty stations;

(b) Approve the use of the modified housing costs for various housing types and sizes in New York as benchmarks in the calculation of the housing index for field duty stations; and

(c) Take note of the Committee's endorsement of the modifications to the questionnaires to be used for the cost-of-living surveys at field duty stations.

D. Other business

23. The Commission decided to take note of the post adjustment issues in the Eastern European duty stations.
