

Paper raises serious questions regarding the credibility of the decision of the International Civil Service Commission to reduce pay in Geneva by 7.5 percent

The staff federations have carried out a close analysis of the statistical methods that led the International Civil Service Commission to recommend a pay cut in Geneva of 7.5 percent.

The analysis concludes the following:

- The ICSC's conclusions diverge significantly from comparable macroeconomic indicators.
- The ICSC recommended a final result that does not appear consistent with the conclusions reached earlier by its own committee of experts.
- The ICSC artificially reduced its calculations of the cost-of-living in Geneva by including rental prices from a third country (France).
- The ICSC does not appear to have correctly applied the methodology, leading to potential downward distortions in the calculation of cost-of-living.

For memory, the ICSC's decision is based on a survey of staff spending patterns that it undertook in October 2016 to compare the purchasing power of staff in Geneva with those at the base, New York (staff in New York also did a survey to provide a baseline). According to the ICSC, the difference in findings between the 2016 survey and the previous survey in October 2010 led to its conclusion that pay needs to be cut by 7.5 percent.

Concern 1: The ICSC's conclusions diverge significantly from comparable macroeconomic indicators

Any statistical result needs to be compared with similar data in order to verify its validity. According to the table below (Swiss federal statistical office and Geneva cantonal statistical office) overall deflation during the period measured was 1 percent.

Table 1: Consumer price inflation In Geneva October 2010 to October 2016

| <i>Item</i> | <i>percent</i> |
|--|----------------|
| Overall | -1.0 |
| Food and non-alcoholic beverages | -1.0 |
| Alcoholic beverages and tobacco | 3.8 |
| Clothing and footwear | -11.9 |
| Housing and energy | 8.3 |
| Rents | 10.4 |
| Furnishings, household equipment and maintenance | -10.1 |
| Health | -2.8 |
| Transport | -9.9 |
| Communication | -7.4 |
| Recreation and culture | -5.6 |
| Education | 15.4 |
| Restaurants et hotels | 3.9 |
| Miscellaneous goods and services | -3.3 |

At the same time:

- Average nominal salaries in Geneva increased by 3.7 per cent between 2010 and 2015 (2016 data not yet available).
- Average real salaries in Geneva increased by 5.7 per cent between 2010 and 2015.

Concern 2: The ICSC recommended a final result that does not appear consistent with the conclusions reached earlier by its own committee of experts.

Prior to the ICSC considering the results of the survey, the data was analysed by the Advisory Committee on Post Adjustment Questions, which met in February 2017.

The 2010 survey had shown that Geneva was 12.3 percent more expensive than New York (and 22.1 per cent more expensive if only in-area expenditures are taken into account i.e. expenditures within Switzerland).

The 2016 survey showed that Geneva was about 2 percent more expensive than New York (and about 5.3 per cent more expensive if only in-area expenditures are taken into account)

At the ACPAQ meeting, participants were presented results, which would lead to a revised post adjustment index for Geneva in October 2016 of 165.89, compared to the index being practised of 172.4: a decrease of 3.8 per cent.

While participants at ACPAQ concluded their meeting on the understanding the cut would be 3.8 percent, which according to ICSC operational rules would lead to a pay freeze as the cut was less than 5 percent, the ICSC, meeting in plenary one month later, was informed that the cut was 7.5 percent.

Participants have complained about lack of transparency in the process. It appears that separate information was presented to ACPAQ and the ICSC.

Concern 3: The ICSC artificially reduced its calculations of the cost-of-living in Geneva by including rental prices from a third country (France).

The survey was designed to determine cost-of-living in Geneva duty station. This is defined by the ICSC as the Canton of Geneva and the neighbouring Préfecture de Nyon in the Canton of Vaud. However, departing from its own methodology, the ICSC decided for the first time to include rents and housing related expenses in neighbouring France. Further it counted these as out-of-area expenditures, artificially reducing the cost-of-living for Geneva.

It should be noted that France is not part of the Geneva duty station and the option to reside in France is only open to staff of certain nationalities. In addition, out-of-area expenses measure spending on items that can't be found locally and have to be imported. Housing is not an import, nor can it be traded across borders.

As a result, the share of out-of-area expenditures increased from 6 percent in 2010 to about 20 percent in 2016. This over-weighted prices in France and under-weighted prices in Switzerland. It also led to a false conclusion that staff in Geneva increased their spending in

France almost four-fold between 2010 and 2016 and that they spend a fifth of their income on imports. It also significantly under-reported the cost-of-living in Geneva.

Concern 4: The ICSC does not appear to have correctly applied the methodology, leading to potential downward distortions in the calculation of cost-of-living.

The ICSC went ahead with its decision despite a number of concerns with the application of the methodology. These concerns are set out below.

The ICSC incorrectly evaluated prices in Geneva. For example it evaluated the minimum price for a full fare 250 km single train ticket as US\$ 23.28. The actual price is US\$89 (Geneva-Zurich). This is but one example.

The ICSC may not have collected sufficient price quotations to ensure a reliable estimate of average prices. The number of price quotations collected in New York and Geneva is much smaller than the number of price quotations collected by the US Bureau of Labour Statistics and the Geneva cantonal statistical office for their consumer price indices. As an example Geneva collects 20,000 price observations compared to only 3,000 by the ICSC.

The ICSC removed a large number of price observations from its calculations without explanation. The number of price quotations collected but not used for estimating average prices in New York is surprisingly high – 38.1 percent of price observations were dropped from the New York survey. This compares to 13.6 percent of price observations removed in the 2010 round. For Geneva, a relatively high 18 percent of prices collected were considered as invalid. It is not clear how and which prices were excluded from further processing in the validation and edition process. Further, a 38.1 percent invalid observation level is an immediate indicator of a major problem with the price survey.

The ICSC collected prices from some outlets in New York that were not originally on the list of outlets prepared by the Local Survey Committee, raising questions about their validity. In addition, more than five price quotations were obtained per item per outlet in many cases. It is not clear how significant these additional price observations have on the average prices.

The data at the ICSC's disposal made it difficult to make a direct comparison between Geneva and New York. Price variation and dispersion between maximum and minimum prices observed were much higher in New York, which suggest there is a possible problem with item specifications.

The ICSC did not obtain comparable medical insurance costs. Medical insurance premiums are higher in New York. However it appears that the services that are covered by these premiums may not be the same the ones covered in Geneva. For families medical insurance premiums are an important spending item.

The ICSC collected some prices in Geneva that were inappropriate. For example, both sale and regular prices were collected but later not used. According to the report the regular prices were used for analytical purposes only. It does not specify what these purposes are.

The ICSC did not collect similar rental information for New York and Geneva. The average surface of both apartments and houses measured in New York was bigger than those measured in Geneva. The rent survey therefore did not allow for a sufficient number of rents to be observed in New York that would be comparable with the surface of apartments and houses in Geneva. The ICSC applied “size adjustment factors” to attempt to make the comparison, but given the importance of rents in spending patterns, it is not clear that like was compared with like.

The ICSC may have exaggerated the extent of the reduction in rental prices in Geneva. The reduction in calculations for Geneva cost-of-living is based in part on the reduction in the ICSC’s rental index for Geneva, which went down from 108.34 in 2010 to 95.8 in 2016 (from rents being higher 8.3 percent in Geneva in 2010 to being 4.3 per cent lower in 2016 than New York). However, the rent ratios between Geneva and New York, for various dwelling types, did not changed significantly between 2010 and 2016. The reduction in the rental index was the result of changes in distribution by staff by dwelling type, not a decrease in actual rental prices as the ICSC claims.

The ICSC doesn’t adequately compare the use of education between Geneva and New York. The education index for Geneva was 66 percent of New York, based on costs of private schooling. However, this does not reflect the fact that in Geneva a far higher proportion of staff put children into private schools in order to obtain an English-speaking education, compared to New York, where an English-speaking education is also available in public schools.