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## **REWARDS FOR 2016 What can we learn from the 2015 experience?**

**Summary:** *in 2015, the President did not consult the GCC when deciding on how to attribute rewards. He promised 18,4 million Euros, but actually spent one million less. The new career system has been designed to reduce staff overall lifetime salary by introducing one-off rewards instead of pensionable salary increases. Then, to add insult to injury, already in its first year of application the meagre “step budget” that remained effectively shrank like a “peau de chagrin”. All in all, despite staff delivering a 15% increase in production, they were “rewarded” with further cutbacks in their career progression. In 2016, staff is on a path to deliver a further 10% increase. Management, to the contrary, is on track to once again save a lot of money through reduced pensionable rewards. Is there a lesson here to learn for staff in 2017? In this paper, we analyse available figures from the past and then we make recommendations on how to (fully) use the available budget this year to alleviate a little the fundamental flaws introduced with the new career system. Our recommendations are unlikely to be followed. Instead, more “practical knowledge” is to be expected to be gained by staff, e.g. through the use of possible team bonuses.*

### **1. From the available envelope in 2015, what was really spent?**

According to [Communiqué 72](#) of 24 September 2015:

*The budget envelope allocated to promotions, step advancements, bonuses, functional allowances and the transitional measures of the career reform amounts to a maximum of 10,4 million Euro. In case the overall performance objectives for 2015 are reached, an additional performance related reward may be allocated. In total, a **budget of 18,4 million Euro** (corresponding to 2,6% of the salary mass) is allocated to reward performance and competencies. This represents a potential increase of 24% compared to the budget spent for the year 2014.*

The President attached to Communiqué 72 “[general guidelines on budget allocation and rewards distribution for 2015](#)” which were not submitted to the GCC for consultation.

The guidelines included the following table:

Reward type (in EUR)	Pensionable/non-pensionable reward	Budget 2015
Steps/ Promotion	pensionable	Max. 4.800.000
Transitional measures (see 2 b below)	pensionable	1.800.000
Individual Bonus	non-pensionable	Max. 3.400.000
Potential bonus linked to 2015 overall performance	non-pensionable	Max. 8.000.000
Functional Allowance	non-pensionable	400.000

According to the President in his [Communique 73](#) of 4 December 2015:

*“...around 75% of staff will be rewarded in 2015. For this purpose **we have allocated 18,4 million Euros...**”.*

It is not clear either how much was really spent in the end or indeed how it was spent. The exercise was not transparent and largely arbitrary. However, official sources do provide indications at least on the total numbers.

According to [CA/D 1/15](#) of 17 December 2015 (see page 201), **only 17,680 million Euros were spent in 2015**. The above order of magnitude seems to be confirmed in the social report ([CA/55/16](#)) in a table<sup>1</sup> on page 27.

<sup>1</sup> CA/55/16, page 27

### 2.3 Performance and rewards

Table 21: Rewards, 2015

Reward type	Pensionable/non-pensionable	Spent for 2015
Step/promotion	Pensionable	3 947 086
Transitional measures	Pensionable	1 860 227
Boards of Appeal measures	Pensionable	100 404
Individual bonus	Non-pensionable	2 807 925
Performance bonus	Non-pensionable	8 726 000
Functional allowance	Non-pensionable	278 118
<b>TOTAL</b>		<b>17 719 760</b>

Source: HR Admin. Practices

For performance in 2014, the following proportions of staff received a reward in 2015:

- 66.4% of staff eligible for a pensionable reward, e.g. step advancement or promotion, actually received such a reward.
- 15% of staff received an individual bonus as a non-pensionable reward for their performance in 2014.
- 69.7% of staff received a performance bonus for their contribution to the Office's performance in 2015.

From these official figures, we can already draw some conclusions:

- What has been allocated is not the same as what has been spent: rewards are not spent to the full amount of the available budget.
- The system is biased towards underspending on the pensionable rewards and overspending on the non-pensionable rewards. In the medium to long-term, this is obviously to the detriment of staff.
- In DG1, the secret (and therefore unlawful) additional criteria imposed by VP1 (corridors; 92-day rule; etc...) are so stringent that Directors were not even in a position to spend all their theoretical budget.

Based on this 2015 experience, we expect that the already announced 22 million Euros envelope for 2016 ([CA/D 1/15](#), page 201) is not going to be fully spent. The President has further unilaterally decided and announced in the [guidelines](#)<sup>2</sup>, issued without consultation, on the share of pensionable and non-pensionable rewards, whereby the share allocated for pensionable rewards is by far insufficient to meet previous final salary expectations.

## **2. Could the career system be made to work in the available envelope?**

A 22 million Euros envelope could be enough for the new career to be implemented in a fair way, provided the major part of it was directed towards pensionable rewards.

We estimate that around 16 million Euros from the envelope would be needed to rewarding by means of a step or a promotion all those who deserve it and would be eligible under the new system. In 2015, the President used a meagre 4,8 million Euros to promote only 66,4% of those eligible and this by rewarding most of them with only half a step.

Therefore, the amount needs to be roughly doubled in 2016 merely to be able to reward the same number of staff members (who are likely to be again the best performers). This is exactly the amount which has been set-aside within the guidelines for 2016 (9,7 million Euros for steps and promotions). We consider that staff who were not granted any (half) step last

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<b>Reward type (in EUR)</b>	<b>Pensionable/ non- pensionable reward</b>	<b>Budget 2016</b>
Steps/ Promotion	pensionable	Max. 9.700.000
Individual Bonus	non-pensionable	Max. 5.000.000
Potential bonus linked to 2016 overall performance	non-pensionable	Max. 6.400.000

Functional Allowance	non-pensionable	Max 900.000
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year, should be awarded at least half a step in view of the collective effort made by all staff to achieve often unreasonable (and moving) targets both in 2015 and 2016.

Greater freedom should be provided to the Directors and line managers to reward colleagues also to compensate for the many flaws and rigidities of the system. For instance, some colleagues might benefit from repeated (multiple) steps whereas others might be deprived of any pensionable reward due to the lack of an appropriate envelope, just because they missed the ambitious targets by a small margin. At the same time, the treatment granted for example to DG1 part-timers, especially women, who were excluded from promotion, is a shame and an appalling demonstration of how such a poor system can quickly become unjust when applied dogmatically.

### **3. Our prognostic**

We fear that the President (and his advisors) will, in their normal dogmatic way as already announced, once again assign a too-limited envelope for attributing steps and promotions. Furthermore, either they will reward the same people, thereby frustrating and discouraging the others, or they will simply choose alternates, thereby alienating a different set than last year. Either way, so long as the envelope for pensionable rewards remains grossly under-dimensioned, this becomes a recipe for massive disappointment. The current policy needs to be changed and the career system needs an input of fresh ideas to remedy its major flaws.

We can only hope this will happen **before** the quality of the “core products” and the reputation of the EPO has been irretrievably damaged. As always, only the future will tell.

Mastering the career system is an art that might be learnt in only two lessons. The first was given in 2015: +15% increase in production was rewarded with a severe cut in pensionable rewards. The second lesson will be given in 2016: the already published guidelines on rewards, if not amended, are a strong indication that management intends to once again reduce the long-term pensionable salary mass by favouring non-pensionable rewards.

We have recently learnt from the report of a VPC1 meeting that took place on 21 October that the performance bonus system was discussed to include a “*team-related aspect*”. Apparently, it has been decided that each DG can spend up to 50% of their bonus envelope on “*team-related bonuses*”: therefore, in DG1 they intend to “*spend 20-25% on team-related bonuses*”. The “*details will need to be worked out within DG1*”. Furthermore, we understand that “*some money will also be reserved for non-financial awards*”. Unfortunately, it is also likely that the same “specific” criteria applying to awards in DG1 (corridors, etc...) will be maintained.

Apparently, management can again make up their own often last-minute rules on how to share the budget envelopes without any input or even consultation with the elected Staff Representatives. We fear that team bonuses will be an arbitrary, self-justifying and self-serving exercise: reliable and transparent rules for the new career system awards are still to be invented.

Management for sure has not yet learnt the lessons from 2015: it might need at least one more year before they are prepared to discuss their reward proposals with the Staff Representation (as used to be the case in the past) to try and adapt policies and implementation to the specific situation in the EPO. Everyone must understand that work in

the Office is typically non-competitive and collaborative. In the meantime, we are concerned with continued degradation in the overall health of staff and the reputation of the Office.

A further question is whether staff will also learn from these lessons and consider the consequences of repeated increases in production for minimal extra rewards in the coming years. Again, only time will tell.

#### **4. An outlook for 2017**

Management has already proposed a draft budget for 2017 ([CA/50/16](#)), with once again an undersized envelope (13 million Euros) for promotions and steps out of a total of 22,5 million Euros. Although this is a slight increase over 2015 and 2016, it would only allow giving at last half a step promotion to all those staff who have not enjoyed receiving a pensionable reward in 2015 and/or 2016. It should be noted that the draft budget for 2017 has just received a unanimous, positive opinion in the Budget and Finance Committee

#### **5. Input of Central Staff Committee not welcome**

We wrote a [letter](#) to the President as early as 18 August 2016 to request a discussion on the attribution of the rewards for 2016. We did not receive an immediate answer. The guidelines were then published on 7 September and we received an [answer](#) on 12 September informing us that the guidelines would only be submitted “for information” to the GCC and not for discussion. We made a similar request in the Sub-Working Group of the GCC to have a discussion on the budget. This was again turned down. Thus we see no real signs of a renewed social dialogue.

#### **6. The President (and VP1) is responsible for the budgetary distribution**

The budget 2016 was adopted by the Administrative Council. In [CA/D 1/15](#) it is stated<sup>3</sup> that the amount (envelope) allocated for promotions and steps is at the discretion of the President. Therefore, the President must take full responsibility for the low amount attributed to promotions and steps in both 2015 and 2016. He could still change the envelope distribution for 2016, but only if he so wanted to. Similarly, VP1 could also remove the additional obstacles put in the way of Directors when they distribute the available rewards which currently only further aggravate the problems.

The Central Staff Committee

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<sup>3</sup> See CA/D 1/15, on page 72: “A fixed amount of €22m (3%) has been allocated to step increase/promotion/bonuses. The amount has been reserved for the budgetary envelope of the New Career System.

***The allocation of the envelope to step increase/promotions/bonuses is to be decided each year by the President.(emphasis added)***