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ADDENDUM TO COVER NOTE

from: The Employment Committee and the Social Protection Committee
to: Permanent Representatives Committee (Part I) / Council (EPSCO)
Subject: European Semester 2014: Contribution to the European Council
(Brussels, 26-27 June 2014)
(d) Scoreboard of employment and social indicators
- Report from the SPC indicators 'subgroup'

Delegations will find attached the above-mentioned report.

The joint EMCO/SPC Opinion is to be found in doc. 10337/14.



**Key employment and social indicators' scoreboard: operationalization – report
from the social protection committee indicators' subgroup**

1. Introduction

At the SPC meeting of 9-10.04.2014, in the context of a request by the Hellenic Presidency for a joint SPC and EMCO opinion on the operationalization of the scoreboard of key social and employment indicators for the June EPSCO meeting, the SPC requested that its Indicators Subgroup (ISG) **analyses the feasibility of the application of the Social Protection Performance Monitor (SPPM) methodology, endorsed by the Council, to the relevant social indicators of the scoreboard.**

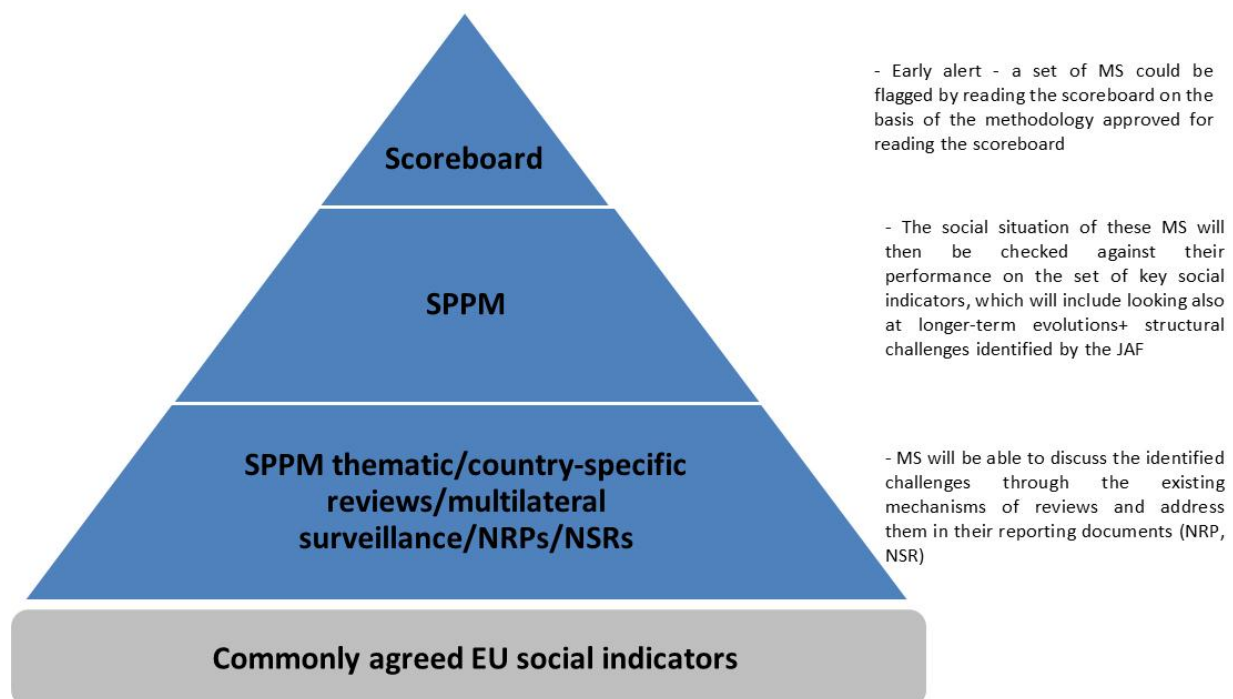
In order to deliver on this request, the ISG discussed at its meeting of 21 May 2014 the following related issues:

- i) a broad reflection on the concrete way of linking the scoreboard to the existing social monitoring instruments (based on their specific objectives), as a necessary step to define the most appropriate methodology for reading the scoreboard;
- ii) the feasibility of using the SPPM methodology for the set of social scoreboard indicators;
- iii) a roadmap for statistical and Committee-level work which can ensure the implementation of the scoreboard in the context of the next European Semester.

2. Reflection on the concrete way of linking the scoreboard to the existing monitoring instruments

The discussions in the EPSCO advisory Committees have pointed out to an agreement on the fact that the scoreboard is an important step forward in terms of granting political visibility for employment and social developments. The ISG retained that any discussion on the scoreboard itself cannot be taken in isolation of the way the scoreboard fits the overall monitoring mandate of the SPC, stemming from Article 160 of TFEU. In order to ensure that the scoreboard delivers on its function of granting political visibility to social developments, the ISG agreed that this is best done through a *full integration between the scoreboard and the existing social monitoring instruments*. This would allow for a logical diagnosis which builds on the different functions of the existing monitoring instruments while avoiding overlaps and confusing messages. It will also allow using the concise nature of the scoreboard in terms of its communicative capacity while not losing on the necessary in-depth information on the social challenges faced by Member States available through the existing monitoring instruments.

The following architecture which sees the scoreboard fully integrated with the Social Protection Performance Monitoring mechanism was approved:



Such integration sees the scoreboard as delivering on its key objective of detecting adverse social and (employment) developments at **an early stage**. These developments will then be cross-checked with the performance of the given Member States on the set of social indicators in the SPPM, including the emphasis on longer-term evolutions which is part of the SPPM methodology, and the structural challenges as identified by the Joint Assessment Framework (JAF). The concerned Member States would then be invited to participate in the SPPM reviews and would have the opportunity to exchange with other Member States on the identified issues of concern and the possible policy instruments to tackle them used by other countries. It was agreed that the scoreboard as such should not be an instrument automatically triggering country specific recommendations as these should be based on more in-depth assessment of the social situation in the country concerned, taking account in particular of the analysis of all the relevant indicators included in the set of commonly agreed EU indicators for social protection and social inclusion.

The 2014 Joint Employment Report published the first scoreboard results and their analysis. It should be pursued to include future editions in a Joint Employment and Social Report. The SPPM thematic reviews can then be used as a mutual learning opportunity. The joint input from the quantitative analysis and the SPPM reviews will feed into the European Semester process of identifying and addressing the most important social challenges faced by Member States. Member States would be expected to address these findings in terms of policy measures implemented to tackle them in their NRPs/NSRs.



This will allow for delivering on one of the main objectives of the Commission Communication on the social dimension of the EMU, i.e. enhancing the capacity to monitor employment and social developments in order to better coordinate a timely and adequate policy response. It will also ensure that each of the monitoring instruments has a distinct and complementary function. The scoreboard will look at identifying early on worrisome developments. The SPPM will deliver on a concise but comprehensive overview on developments across the set of key social indicators, including looking at longer-term developments. The JAF will feed into analysing the in-depth policy challenges and areas for policy action.

3. Reading the scoreboard

The main objective of the scoreboard is the early identification of major employment and social trends which can severely undermine employment and social cohesion in the Euro area and the EU at large.

Delivering on these objectives depends on:

- i) the choice of indicators and
- ii) on the methodology used to look at these indicators.

3.1 Choice of indicators

The Council adopted the 2014 Joint Employment Report in March 2014 and retained the following set of indicators for the scoreboard:

- unemployment level and changes
- NEET rate and youth unemployment rate
- real gross disposable income of households (GHDI)
- at-risk-of-poverty rate for the working age population
- inequality (S80/S20 ratio)

Given the Council decision, the choice of the set of social indicators is currently not under discussion. Ideally, the choice of indicators should be driven by the early alert function of the scoreboard as well as the capacity of the indicators to identify imbalances that threaten the stability of the EMU. This makes timeliness of data a crucial aspect. The current set includes one indicator (GHDI) with relatively good timeliness as it comes from National Accounts. The SILC-based indicators are both based on income whose reference period is t-1. The ISG has discussed some alternatives, including SILC-based indicators which do not suffer from the additional time lag – e.g. the severe material deprivation rate (which in the future may be delivered earlier than the core SILC results), the financial distress indicator, etc. Although the current list of indicators is relevant for the identification of imbalances that risk threatening the stability of the EMU, ISG delegates agreed that further work on these options can feed into a future reflection on the list of social indicators included in the scoreboard.

3.2 Methodology to look at the scoreboard indicators

Identifying the appropriate methodology for reading the scoreboard is essential for its use. Following from the proposal to focus on the scoreboard as delivering on its primary function as an early alert, this will affect the choice of the methodology used for reading the scoreboard. As the scoreboard was identified as the first step in the overall monitoring systems, the ISG agreed that a parsimonious choice on the dimensions to assess is advisable, especially if coupled with the appropriate choice of indicators.

The ISG agreed that the social indicators in the scoreboard are to be read jointly in terms of their levels and the evolutions in the three most recent years. This approach will ensure monitoring worrying deterioration in the most recent year as well as smaller but potentially worrisome negative evolutions in two consecutive years. In terms of identifying evolutions, which can become a reason for concern, and after analysing detailed time series, the ISG agreed that the best way forward is to build on the already endorsed SPPM methodology which is based on variance estimates produced by Eurostat and used to assess the significance of net change. The table bellows illustrates the results of this approach for 2012.

2012								
	AROP 18-64			S80/S20			GHDI	
	2012	change in pp 2011-12	change in pp 2010-11	2012	change in % 2011-12	change in % 2010-11	change in % 2011-12	change in % 2010-11
EU28	16,5	~	~	5,1	~	~	2,2	2,4
EU27	16,5	~	~	5,1	~	~	:	:
EA18	16,8	~	1	5,1	~	~	0,3	1,1
BE	13,6	~	0,8	3,9	~	~	3,7	2,2
BG	17,4	~	2,2	6,1	~	10,2	3,4	7,4
CZ	9,3	~	1	3,5	~	~	-0,9	2,8
DK	13,9	~	~	4,5	~	~	2,3	3,1
DE	16,6	~	0,8	4,3	~	~	2,4	3,8
EE	17,7	~	2,4	5,4	~	6,0	-0,1	9,4
IE	:		~	:	:	~	-1,1	-2,1
EL	23,8	3,8	1	6,6	10,0	7,1	-9,0	-7,1
ES	21,9	1,1	1,3	7,2	~	~	-2,8	0,0
FR	13,7	~	0,8	4,5	~	~	1,0	2,7
HR	18	~	~	5,4	~	~	0,4	-1,3
IT	18,6	~	1,6	5,5	~	7,7	-1,8	2,1
CY	12,2	~	~	4,7	~	~	-6,6	4,2
LV	19,3	~	~	6,5	~	~	8,7	4,8
LT	17,9	-2,3	-2	5,3	-8,6	-20,5	3,8	4,6
LU	14,5	~	-0,8	4,1	~	~	4,2	3,9
HU	13,6	~	1,7	4	~	14,7	-2,3	5,4
MT	12,4	~	~	3,9	~	-7,0	:	:
NL	10,1	~	~	3,6	~	~	-0,2	1,6
AT	13,3		~	4,2		~	3,8	2,3
PL	16,5	~	~	4,9	~	~	2,0	2,0
PT	16,9	0,7	0,5	5,8	~	~	-1,6	-1,4
RO	21	~	1,8	6,3	~	~	:	1,8
SI	12,2	0,5	0,7	3,4	~	~	-2,7	2,3
SK	12,3	~	1,2	3,7	~	~	1,7	2,4
FI	12,4	~	~	3,7	~	~	3,1	4,0
SE	12,9	~	0,6	3,7	~	~	8,5	10,8
UK	15,5		-0,8	5,4	~	~	11,7	1,5

Source: Eurostat (EU-SILC for AROP and S80/S20; National Accounts for GHDI)

Notes: i) "~" refers to stable performance (i.e. statistically insignificant change); ii) for AROP – Eurostat estimates for significance of net change have been used; for S80/S20 – the SPPM provisional rule of thumb of 5% is used until estimates are developed by Eurostat; for GHDI – all y-on-y % changes have been considered; iii) results for BE and PT for 2011-2012 need to be taken with caution as further analysis is needed due to low variation; iv) in 2012 AT has changed the source for income from survey to administrative data. As a result, income/related indicators suffer a break in series for 2012 and are therefore not comparable to 2011. AT will be able to provide a comprehensive back-calculation of the timeline until the base year 2008 at the end of 2014; v) For UK, changes in the survey vehicle for 2012 and institution might have affected the results and interpretation of data must therefore be particularly cautious.

The SPPM will be extended to enhance the identification of negative trends and longer term evolutions in order to complement the reading of the scoreboard (e.g. via the evolution of 3-year averages and/or deviations from the EU/EA trend).

Analysing convergence/divergence based on the scoreboard can be then done through a more analytical approach, taking as a point of departure what has been done in the 2014 Joint Employment Report. It would be useful to explore if the Joint Assessment Framework methodology can contribute to the convergence/divergence analysis.

4. Implications for future work

Following its discussion on the operationalization of the scoreboard, the ISG identified the following roadmap for necessary further statistical work:

- joint work with Eurostat on further developing the variance estimation of ratio-defined indicators;
- on-going work on reviewing the selected set of social indicators on the basis of criteria related to timeliness and the early alert function and on methods or other indicators that can provide more timely information on the social situation;
- exploration of indicators which capture imbalances that might be at the origin of spill-over effects;
- work on the presentation of the proposed methodology for the scoreboard.