TRADE DISPUTES PANEL, SOLOMON ISLANDS

Under the Trade Disputes Act 1981

L9/7/90

Between:	NATIONAL BANK OF SOLOMON ISLANDS LIMITED	Applicant
and:	NATIONAL BANK OFFICERS ASSOCIATION	Respondent

Date of hearing/entering an inquiry: 20 September 1990.

Date of submission of draft award to Minister: September 1990.

Date of award issued to parties: October 1990.

H Macleman Chairman
O Pokana Member
H Creighton Member

For the applicant: G W Donaldson, Manager (Administration), and T D Noone, Acting Managing Director.

For the respondent: C Waiwori, National Secretary, Solomon Islands Council of Trade Unions, and R Wales, President, National Bank Officers Association.

FINDINGS

On 29 August 1990 National Bank of the Solomon Islands gave notice of a dispute with the Association representing its employees over:-

> "... the Bank's and the Association's interpretation of the application of the appropriate Honiara Retail Price Index to be used for the purposes of salary and allowance increases".

Under its terms and conditions of service, the Bank reviews salaries annually as at 1 January. Over the years it has followed the policy of Government and of the Panel in adopting two-thirds of the rate of inflation as a guideline - a policy the merits of which were not in issue at the hearing. Traditionally this calculation has been based on (a) a comparison of the Honiara Retail Prices Index published by the Government Statistics Office with the same month the previous year.

For many years there was no other basis of comparison but more recently the

Government Statistician has published also figures based on (b) the average of the past 3 months compared with the average of the same 3 months 12 months before and (c) the average of the past 12 months compared with the average of the previous 12 months.

Not surprisingly, this has led to the employees' side putting forward in negotiation and to the Panel whichever of those figures happens to be highest from time to time, although usually with little attempt to justify which figure is preferable in principle.

In the case of Solomon Taiyo Limited v Solomon Islands National Union of Workers (TDF/L9/2/20, 5 June 1990) The Panel gave its view:-

> "... the best comparison is with the same month in the previous year. This will not necessarily produce either a higher or a lower figure than the other comparisons at any given time - it is simply a more consistent and accurate comparison of the actual effect on employees' wages."

The figures from January 1989 to January 1990 were:-

		(a)	(b)	(c)
1989	January	21.3	18.2	17.4
	February	17.2	18.6	17.5
	March	16.4	18.3	17.6
	April	16.8	16.8	17.5
	May	17.2	16.8	17.4
	June	14.6	16.2	17.0
	July	12.2	14.6	16.6
	August	13.0	13.2	16.2
	September	14.0	13.0	16.1
	October	13.8	13.6	15.7
	November	13.0	13.6	15.5
	December	10.8	12.9	14.9
1990	January	6.9	10.1	13.7

The Bank duly paid a rise of 7.2% (2/3 of 10.8%).

The National Bank Officers Association sought advice from the Statistics Office and on 20 March 1990 the Principal Statistician (Ag.) wrote to them saying of figure (a) for December 1989:-

> "... This is not the figure for the whole of 1989. This percentage change of 10.8 per cent precisely is the inflation rate on a monthly

> basis.... Thus the use of this monthly comparison as a basis for salary adjustment is not correct in that it did not reflect the general trend of the Cost of Living in the whole of 1989".

The letter went on to recommend the use of either figure (b) or figure (c). As might be expected, the Association adopted figure (c) in its negotiations with the Bank and its submissions to the Panel, arguing:-

> ".... The use of monthly comparison methods as the basis for salary adjustments is incorrect because it does not reflect the general trend of the Cost of Living for the whole year. Month to month comparison is inappropriate in that most commodity prices are lower for the purpose of discounts, clearance sales and Christmas specials during the month of December.
>
> In our view the rates of inflation could suffer a major disadvantage of being sensitive to any short term price fluctuation ... The most reasonable rate of inflation which best indicates the general trend of the Cost of Living in Honiara for the whole year in 1989 is 16.6%."

On that basis and applying the 2/3 guideline the Association invited the Panel to awards its members an additional 3.9% for 1990, bringing the total rise to 11.1%. The Bank was at first reluctant to agree to any change in the method of calculation, but later was prepared to move to method (b), with effect from 1 January 1991 only, not 1990. If there is justification for a new method, there appears to us to be no reason why it should not apply this year. The Bank's position at the hearing was to ask the Panel simply to confirm the increase already awarded for 1990.

The Panel also considered the following comments contained in a letter from the Government Statistician dated 10 September 1990, which had been made available to the parties before the hearing:-

> "/a/ Month on Same Month 12 Months Ago
>
> Whilst this method offers the most up to date figure for the "current" level of inflation it suffers from the major disadvantage of being sensitive to any short term price fluctuations. Thus in any one month it may well exaggerate or diminish the general trend in the level of inflation.
>
> /b/ Past 3 Months on Same 2 Months 12 Months Ago
>
> Whilst this approach, due to the averaging process, results in a measure that lags slightly (1½ months) behind the "current" level it does offer a much smoother series since any peaks or troughs apparent in the monthly data are averaged out over the three months

period. In addition this method is able to react fairly quickly to any definite change in the general trend in the level of inflation and thus provides a reliable reasonably up-to-date measure.

/c/ Average last 12 Months on Average Previous 12 Months

Whilst this approach presents the smoothest series of the three methods discussed it obviously lags well behind (6 months) the "current" level and is thus slow to react to any changes in the level of inflation."

In the Panel's opinion the employees' side has been led astray in two respects - misleading comments in the letter by the Statistician's subordinate dated 20 March 1990 and the obvious attraction of a rate under method (c) which would result in a substantially higher pay raise this year.

The Principal Statistician (Ag.) was wrong to suggest that (a) is a comparison for a month and not a year. While the Panel claims no special expertise in econometrics or statistics, comparison (a) seems to us the most accurate measurement that can be made of the actual difference in the purchasing power of the pay in the employee's pocket between one annual review date and the next. It has served the Panel and both sides of industry well as a guide for many years. The criticisms made of this approach are misguided except for the point that it may be subject to short-term fluctuation not reflecting the general trend. The only occasion on which that has happened in the past was when there was an explosion in the price of betel-nut following Cyclone Namu in 1986. The Panel then proved capable of recognising a distortion and adjusting its awards in cases affected. The Panel feels that while the possibility of misleading rapid fluctuation has to be borne in mind, it happens seldom, can be detected and taken into account, and does not justify abandoning this tried and tested method.

The immediate but superficial appeal to employees of the higher rates produced by method (c) can be rapidly discounted. It is apparent from the figures set out above how significantly this measure may lag behind the actual decline in value of the "dollar in the pocket". In 1989 the rate of inflation generally fell and so measure (c) stands higher than (a) by a widening margin. In a time of rising inflation, when the need for pay rises is felt more acutely by employees, the effect would be precisely the opposite. If employers had tried to introduce such a system in a period of rapidly rising inflation with measure (c) lagging several percentage points behind actual loss of employees' purchasing power, one may imagine the vehemence with which their union representatives would (justifiably) have opposed such a proposed change.

When this point was put to the Association officials at the hearing, they maintained that they would be prepared to stick to method (c) in future years even if it was apparently disadvantageous; but the Panel doubts very much whether their members would accept that in reality.

Over a period of several years, the cumulative effects of methods (a), (b), or (c) on any given group of employees should prove very similar, and it would be open to parties in any particular case to adopt any of these methods, but for its purposes the Panel must choose the approach which will be of the fairest general application. The members agree that is clearly method (a).

The Association submitted an alternative argument based on profitability or "productivity" for an award of an additional 2.5% from 1 January 1990, pointing to steady profit growth over recent years, including a 61.4% increase to $1,333,464 in 1988/89. The Bank advised us that, based on that success, it had paid to all employees in August 1989 a bonus equivalent to one week's pay.

While both are contributed to by employees, it is important to distinguish between profitability and productivity. No evidence has been produced to show that National Bank of Solomon Islands Staff are more productive in terms of work output than in the past. To link wage increases to profit carries the less inviting corollary of wage cuts when profits decline or losses are made. No case has been established on the basis of profits for a further pay increase. On the other hand, the Panel gained the impression that it might well be appropriate for a significant bonus (which is not added to basic pay levels, but does reward the workers for the profits they have had a share in creating) to be paid again in 1990. The Panel does not have sufficient information to fix a bonus as part of its award but simply records its impression and leaves the matter at this stage to the parties.

The other matter disputed between the parties was the level of housing allowance. This was not part of the original reference but both sides agreed it should also be determined by the Panel. In 1986 the Bank increased housing allowance from 9% to 17% "across the Board". The Association presented a well argued submission as to the increasing difficulty and expense its members face in securing adequate living conditions. The scheme put forward was for a "sliding scale" ranging from 35% of basic salary for the lowest-paid employees to 20% at the top. The Bank initially declined to contemplate any increase, saying that it was already paying "at the top end of allowances paid by employers in Solomon Islands". At the hearing, however, the Bank offered an increase to 25% "across the board".

One member of the Panel, on the grounds of the squalid and overcrowded conditions endured by lower-paid workers in Honiara, favoured a 35% allowance at the bottom end of "Grade C" with a lower rate for higher grades. The other members, while agreeing that housing in Honiara is an ever more serious problem, felt that the increase of roughly 50% offered by the Bank in this respect was a reasonable one, and that more generous housing allowances in themselves would not solve housing problems, which can only be resolved in a broader context of national policy enabling either the public or private sectors (or both) to satisfy the crying need for adequate low-cost accommodation.

The Bank offered the increase from the date of any acceptance by the Association or the date of the Panel's award. However, we feel that the case has been a good one since negotiations began, and see no reason to depart from our usual policy that increases in pay and allowances most conveniently run from a uniform date.

AWARD

1. The Panel confirms the "cost-of-living" increase of 7.2% of basic salary paid by the applicant to its employees represented by the respondent as the appropriate rate from 1 January 1990 for the period of one year.

2. The applicant shall also pay to its employees represented by the respondent housing allowance at the rate 25% of basic salary from 1 January 1990 for the period of one year.

EXPENSES

The Panel fixes a contribution of $100 towards its expenses to be paid by each party to the Ministry of Commerce and Primary Industries within 14 days of this date.

APPEAL

There is a right of appeal to the High Court within 14 days on a question of law only: Trade Disputes Act 1981, s. 13; Trade Disputes Panel Rules 1981, r. 10; High Court (Civil Procedure) Rules 1964 O. 60 r. 3(1).

On behalf of the Panel

Hugh Macleman

(Hugh Macleman)
CHAIRMAN/TRADE DISPUTES PANEL