

## In Confidence

Office of the Minister of Transport

Cabinet Economic Development Committee

## Progress on establishing a bus industry standard agreement for urban bus drivers

### Proposal

- 1 This paper:
  - 1.1 reports on progress to agree nationally consistent terms and conditions via a bus industry standard agreement for urban bus drivers;
  - 1.2 seeks approval to drawdown the tagged contingency funding for the retaining and recruiting bus drivers initiative, as agreed through Budget 2022; and
  - 1.3 advises Cabinet of the public transport bus sector's intention to roll out further improvements to bus driver terms and conditions, subject to funding availability.

### Relation to government priorities

- 2 The proposals in this paper support the Government's priority to provide an inclusive economy where economic growth is shared by all. The proposals will improve the wages of public transport bus drivers by supporting a bus industry standard.
- 3 The proposals also relate to the Government's commitment to reduce emissions as part of our response to climate change. As part of this, the Government has committed to a range of actions in the Emissions Reduction Plan to reduce reliance on cars through mode shift. These actions include improving the reach, frequency and quality of public transport. The sector will only be able to achieve these outcomes with a sustainable and growing workforce, which is a key outcome I am targeting with this proposal.

### Executive Summary

- 4 Public transport is an increasingly important transport option for New Zealanders, both in terms of its importance in providing access and its role in emissions reduction.
- 5 The sector is reporting huge strains on the ability to deliver the services that New Zealanders need due to a severe shortage of bus drivers. This is limiting the ability of public transport authorities<sup>1</sup> to adequately meet the needs of the public in designing their networks and growing services. Many report that they are now having to run

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<sup>1</sup> Public transport authorities are regional councils, Auckland Transport, unitary authorities (other than Auckland Council) and territorial authorities that have the public transport function.

reduced timetables to manage the shortages, which is impacting on public confidence in the network.

- 6 To address these issues, \$61 million was made available in Budget 2022. To ensure the appropriate distribution of this funding, I asked the industry to collaboratively develop minimum terms and conditions for bus drivers that will stabilise the workforce. I intend to use the Budget 2022 funding to implement immediate wage rate increases as a first step in fulfilling these minimum standards.

7 s 9(2)(f)(iv)

## Background

- 8 The public transport network relies heavily on bus drivers; bus services make up the vast majority of the public transport network with around 80% of all passenger boardings.
- 9 Public transport authorities (PTAs) are increasingly unable to maintain reliable public transport (PT) bus services due to difficulties recruiting and retaining bus drivers. Bus operators report being below 80 percent staffing levels, and drivers are working unprecedented levels of overtime. This is impacting service reliability – Auckland Transport (AT) reports its services have dropped to 85 percent reliability. Without the ability to successfully deliver to the baseline schedule, it will be impossible to grow the service and achieve the required reduction in emissions.
- 10 The situation is particularly acute in the large urban centres:
- 10.1 AT estimates that its network is currently short of 500 drivers.
  - 10.2 Greater Wellington Regional Council (GWRC) estimates that its network is currently short of 115 drivers.
  - 10.3 Environment Canterbury (ECan) estimates that its operators are currently short of 50 drivers. It reports that the frequency of one of its biggest routes has been reduced in response to the shortage, but there are still many trips being cancelled at short notice most days.
- 11 Outside the large urban centres, there have been significant reductions to weekday bus frequencies in Hamilton, Tauranga, Dunedin and Queenstown due to driver shortages. There are around 30 driver vacancies in Hamilton, 55 in Tauranga and 20 each in Queenstown and Dunedin. Despite reduced timetables in these centres, trips are still being missed at short notice due to driver illness. In Queenstown, around 16 percent are being cancelled.
- 12 Additional central government funding is required to support PTAs to fund improvements to driver conditions and wages critical to improving the reliability and sustainability of the PT bus network. COVID-19 has exacerbated the existing financial constraints of PTAs and cost pressures facing PT bus services, with patronage and fare revenue down, and greater staff shortages as a result of isolation requirements. Without additional central government support, PTAs cannot deliver improvements to driver conditions and wages.

- 13 Instead, PTAs would be faced with the option of:
- 13.1 cutting public transport services
  - 13.2 raising rates
  - 13.3 increasing fares
  - 13.4 increasing borrowing levels (noting that PTAs should not borrow to support operating costs)
  - 13.5 reallocating budgets.
- 14 In 2021/22, I instructed Waka Kotahi NZ Transport Agency (Waka Kotahi) to work with PTAs to implement an uplift to the Living Wage for all urban bus drivers. This was executed successfully, with all drivers being lifted to a minimum rate of \$22.75.
- 15 The majority of bus drivers now receive the Living Wage as a base rate. There are some exceptions: in the Auckland region, driver wages were recently increased to an average of \$25.62. per hour, while in Wellington the minimum wage rate is \$27 per hour.
- 16 However, even with these increases the industry continues to experience high levels of attrition and difficulty attracting new staff. Further, while Waka Kotahi was able to co-fund this increase with PTAs, the ability to fund further wage increases on top of the Living Wage through the 2021-2024 National Land Transport Programme is limited and will mean not delivering other public transport activities.
- 17 To help solve these stated issues, tagged contingency funding of \$61 million over four years was approved from the Climate Emergency Response Fund (CERF).
- 18 As a condition of receiving this funding, I requested that Waka Kotahi work closely with the industry to develop an agreed minimum set of terms and conditions that would stabilise the public transport network. This was to explore provisions for:
- 18.1 Base rates – A rate that would be sufficient to attract and retain staff
  - 18.2 Penal rates – Additional payments for working nights, weekends, and/or overtime
  - 18.3 Split shifts – Compensating drivers for working shifts with a large unpaid break due to timetabling
- 19 I have received a preliminary set of terms and conditions from Waka Kotahi. These are outlined below.

**Improvements to bus driver terms and conditions will support the establishment of the Sustainable Public Transport Framework**

- 20 On 1 August Cabinet agreed to establish the Sustainable Public Transport Framework (SPTF) (CAB-22-MIN-0293.01 refers), which sets new objectives for the planning, procurement, and delivery of public transport services. One of the new objectives focuses on long-term improvements to bus driver terms and conditions: 'employment and engagement of the public transport workforce is fair and equitable,



providing for a sustainable labour market and sustainable provision of public transport services’.

- 21 To give effect to this objective, I have instructed officials to develop operational policy to achieve the following outcomes:
- 21.1 bus drivers have the opportunity to maintain employment if there is a change of operator
  - 21.2 the substantive terms and conditions of bus drivers are not negatively impacted by a change of operator
  - 21.3 the terms and conditions of the bus driver workforce are improved to increase recruitment and retention.
- 22 My proposal to fund an increase to bus driver wages, and the implementation of a bus industry standard in the longer-term, is a key part of achieving the SPTF objective, and the more specific outcomes above.
- 23 I also anticipate that further improvements to bus driver terms and conditions can be progressed through a Fair Pay Agreement when enabling legislation is in place. Greater standardisation of terms and conditions will prevent a race to the bottom on wages and will better facilitate the transfer of employees between operators should there be a change of operator.

**Waka Kotahi has been working with the public transport sector to develop standard terms and conditions for bus drivers**

- 24 Currently, there are no standard terms and conditions for bus drivers, and these vary widely throughout the country.
- 25 I tasked Waka Kotahi with representing the Crown as a member of the Bus Industry Standard Sub-Group (Sub-Group). It has worked with unions, PTAs, and operators to identify a set of terms and conditions needed to stabilise the sector and determine an indicative price to deliver these terms and conditions. The Sub-Group has also identified how the \$61 million can best be allocated to make immediate improvements to the sustainability of the bus industry.
- 26 This Sub-Group was overseen by a tripartite Bus Driver Conditions Steering Group (Steering Group), which contained representatives from the Council of Trade Unions, Bus and Coach Association, and local government, as well as central government representatives. This Steering Group had previously been established to oversee the implementation of the Employment Relations Amendment Act 2018 and was also responsible for actioning the uplift of drivers to the Living Wage.
- 27 The Sub-Group met at a series of collaborative, in-person workshops over the first half of 2022. The workshops were a concerted effort to bring together very disparate and often historically contentious positions.
- 28 I have received a set of ideal terms and conditions for bus drivers from the Steering Group that they have agreed upon, that will allow for a stabilisation of the public transport workforce. These are outlined in the table below.

*Table 1: Agreed improvements to bus driver terms and conditions*

Terms and Conditions	Agreed Action
Base Rate – Urban	Increase up to \$30 per hour
Base Rate – Regional	Increase up to \$28 per hour
Split Shift Allowance	\$30 allowance per split shift
Penal Rates	Time 1.2 after 9.00pm

- 29 These conditions have significant financial implications.
- 29.1 Base rate: Indicative calculations estimate that increasing the wage of all drivers by \$1 will cost \$10m per year (excluding local share raised by PTAs).
- 29.2 Split Shift Allowance: there is an overrepresentation of split shifts within the bus driver workforce due to increased services at peak hours. Providing a \$30 allowance for each split shift would result in significant cost increases.
- 29.3 To provide Time 1.2 to drivers who work after 9.00pm will also result in a significant cost to regions with late night services.
- 30 Given these financial implications, the funding available through CERF will not be sufficient to achieve these agreed minimum standards - even if PTAs contribute to the cost at their normal funding assistance rate (FAR).
- 31 As a result, I therefore propose that increases to bus driver terms and conditions will be rolled out in three tranches.
- 32 The first tranche will focus on immediate improvements that can be made within the \$61m allocated through Budget 2022. The second and third tranches comprise further improvements to terms and conditions the Sub-Group has identified that could be made subject to additional funding.

**Tranche 1: improvements to base wage rates**

- 33 I propose that the \$61m allocated through Budget 2022 is used to support the sector to standardise base wage rates across the country as much as possible. To receive the Crown funding, I propose operators and public transport authorities are required to contribute to wage increases.

*I propose operators are required to contribute to wage increases consistent with indexation and continue to apply indexation to wage rates in future*

- 34 Public transport service contract prices are adjusted quarterly to account for changes in input costs. This means public transport operators receive increased payments for services if input costs increase, including labour costs. Given operators have already been compensated for increased labour costs, I want to ensure these operators have passed on these additional payments to bus drivers before the Government steps in to fund further wage increases.
- 35 To be eligible for Crown funding, PTAs will need to demonstrate that operators have contributed to increased bus driver wages. This includes demonstrating that:

- 35.1 operators have contributed increased wages consistent with indexation since the previous living wage adjustment on 1 September 2021 at a minimum
- 35.2 operators commit to pass on future indexation payments to increase drivers' wages.
- 36 These requirements will apply to all operators, regardless of region and regardless of the pre-increase wage rate.
- 37 This approach reflects practice to date in some regions. For example, Auckland Transport required operators to contribute to the recently announced wage increases. The operator contribution provided an average increase of \$0.43 an hour across Auckland operators. This component will likely increase further once recent indexation flows through to contract payments in Auckland.

*PTAs will also need to contribute funding, unless they have already self-funded increases to wages*

- 38 In addition to operator contributions, I expect PTAs to contribute local share at their normal funding assistance rate (FAR), which is typically 49 percent. However, some PTAs have already made contributions to increase wages, and we understand others are considering doing the same in advance of Crown funding. Therefore, I am proposing that PTAs who have already matched the share of Crown funding at the normal FAR are not required to provide a further contribution to receive Crown funding.
- 39 Waka Kotahi recently agreed to provide co-funding from the National Land Transport Fund for bus driver wage increases in Auckland – equating to around \$1 per hour. I anticipate other PTAs will likely also receive co-funding from the NLTF for similar increases to bus driver wages. I am proposing that where NLTF funding is provided, PTAs are required to provide local share for both Crown funding and NLTF funding.

*I propose to use the Crown funding to standardise base wage rates as much as possible*

- 40 I propose to use the \$61 million agreed through Budget 2022 to standardise base wage rates across the country as much as possible. This will involve reaching target rates of approximately \$27 an hour in urban areas and \$25 an hour in regional areas, assuming no NLTF contribution<sup>2</sup>. There is insufficient funding to reach the base rates agreed by the Sub-Group indicated in Table 1.
- 41 I want to standardise wage rates to ensure there is greater consistency in bus driver terms and conditions in the future. However, because of current variations in wage rates between operators in some regions, bus drivers will receive different wage increases as a result of the Crown funding. The amount of Crown funding provided to PTAs will depend on how much is required to meet the target rate in addition to operator contributions, as well as how much PTAs are able to contribute to match Crown funding.

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<sup>2</sup> Given some funding is being made available from the NLTF to increase bus driver wages, the target base rates will likely be higher than this.



*I propose to apply Crown funding differently in Wellington, where standardisation of wage rates could lead to wage disparities*

- 42 My proposed approach to standardise wages could lead to wage disparities for Wellington, where flat wage rates are already \$27 an hour. As a result, drivers on this rate in Wellington would receive little or no increase in wages. Conversely, NZ Bus Wellington drivers would likely receive a significant increase to their base rate as it is lower than \$27 an hour. When combined with existing penal rates, this would create a significant disparity between the effective hourly rate of NZ Bus drivers compared to drivers for other GWRC contracted operators.
- 43 To address this issue, I propose to allocate some of the Crown funding to Greater Wellington Regional Council contracted operators according to market share. The funding would be used to:
- 43.1 initially increase base rates to or towards the target rate
- 43.2 subsequently support a penal rate for work after 9pm and/or a split shift allowance for operators that reach the target rate.
- 44 Officials do not have information on the likely cost of supporting penal rates or split shift allowances in Wellington or nationally. Therefore, it is not possible to give an indication of what could be achieved with the funding available at this stage, but I expect officials to regularly update me on this as part of reporting on implementation progress.

*PTAs will determine whether they need to meet the urban or regional rates*

- 45 As indicated in Table 1 above, the Sub-Group has agreed to different base rates for urban and regional drivers. However, the Sub-Group has not determined criteria for what regions or networks meet either category. I propose to allow PTAs to determine whether they target the urban rate or the regional rate, according to what best meets their needs.
- 46 One of the main reasons for different urban and regional rates is the cost of living, which tends to be greater in the main centres. However, I anticipate PTAs will need to look at other considerations in determining which rate is applicable, based on their ability to:
- 46.1 attract drivers to meet demand for services
- 46.2 meet the local share to match Crown funding.

## **Tranche 2: further improvements to base rates, and to allowances**

- 47 A further increase to base rate will be required in order to reach the minimum hourly rate of \$30 for urban drivers and \$28 for regional drivers. This is estimated to cost an additional \$40 million per year and assumes no NLTF investment. Taking into account PTA local share, the additional Crown funding cost of this uplift is estimated to be \$20 million per year.
- 48 This tranche will also see provision of a split shift allowance of \$30 per split shift, and penal rates of Time 1.2 after 9.00pm.

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**Tranche 3: longer-term improvements to terms and conditions**

50 Further actions were identified through the Bus Industry Standard Sub-Group, which I have classed as Tranche 3. These were noted as key actions to improve conditions for drivers, but less urgent than improving the underlying contractual terms. Tranche 3 improvements will be focused on improving:

50.1 recruitment and training

50.2 rosters, including minimising split shifts where possible

50.3 the working environment and infrastructure.

51 Further analysis of the financial implications of Tranche 3 is underway.

**Implementation**

52 Waka Kotahi will be managing the implementation of this initiative and will report to me on progress of the initiative, including through the Ministry of Transport.

53 Funding will be administered through existing funding arrangements with PTAs.

54 Key milestones and indicative timeframes are outlined below:

Milestone/activity	Timeframe
Cabinet agreement to release funding for Tranche 1	September 2022
Notification to PTAs of availability of funding	September 2022
PTAs consult with operators on contractual changes	October 2022
Distribution of Tranche 1 funding starts	November 2022
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**Financial Implications**

55 The proposals in this paper have direct financial implications for the Crown.

56 A tagged operating contingency of \$61 million was approved through Budget 2022 from the CERF. This paper proposes that this contingency funding be drawn down to enable the rollout of Tranche 1.

57 Tranches 2 and 3 will require additional Crown funding, the amount is yet to be determined.

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## **Legislative Implications**

59 There are no legislative implications with this proposal.

## **Impact Analysis**

### **Regulatory Impact Statement**

60 Cabinet's regulatory impact analysis requirements do not apply to this proposal as it does not involve the introduction of new legislation, or changes to, or the repeal of existing legislation.

### **Climate Implications of Policy Assessment**

61 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the emissions impact is indirect and unable to be accurately quantified.

62 The establishment of nationally consistent terms and conditions is intended to enable greater retention and recruitment of bus drivers and stabilise public transport services, which have been impacted by a shortage of drivers. As a result, this work will support greater reliability of public transport services to encourage mode shift, potentially enabling future transport emissions reductions.

## **Population Implications**

63 Data from the 2013 census shows that Māori are more likely to work as bus drivers compared to the general population, and so will disproportionately benefit from initiatives to improve bus driver wages and conditions. We understand Pasifika and minority ethnic people are also more likely to work as bus drivers than the general population so will also be more likely to benefit from improvements to wages and conditions.

## **Human Rights**

64 There are no inconsistencies with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993 from these proposals.

## **Consultation**

65 [TBC following departmental consultation]. The following departments were consulted: Ministry of Business, Innovation and Employment (Workplace Relations), the Treasury, Ministry for the Environment and Waka Kotahi.

## **Communications**

66 I will announce the outcome of the decisions on this paper in a media release following confirmation from Cabinet.

## **Proactive Release**

67 This paper will be proactively released within 30 business days of Cabinet confirmation of decisions. Proactive release is subject to redaction as appropriate under the Official Information Act 1982.

## Recommendations

The Minister of Transport recommends that the Committee:

- 1 note that Cabinet established a tagged operating contingency in Budget 2022 of \$61 million over four years to improve the retention and recruitment of bus drivers through more attractive terms and conditions, given effect to through nationally consistent terms and conditions for bus drivers agreed through a bus industry standard agreement for urban bus drivers
- 2 note that a bus industry standard agreement for urban bus drivers has been developed by central and local government, unions and bus operators
- 3 note that the bus industry standard agreement includes a base rate of \$30 an hour for urban drivers and \$28 an hour for regional drivers
- 4 agree that the \$61 million allocated through Budget 2022 be used to standardise base wage rates across the country as much as possible, to meet a target rate in urban areas and in regional areas
- 5 note that the target wage rate for urban and regional areas will depend on the total funding available, including from operator contributions, public transport authorities, and the National Land Transport Fund (NLTF)
- 6 note that, in using the \$61 million to support standardisation, bus drivers will receive different increases to their wages and public transport authorities will receive different levels of Crown funding due to the current variation in base wage rates across the country
- 7 note that public transport authorities will determine whether they aim to meet the base rate for urban drivers or for regional drivers, according to the needs of their regions
- 8 agree that to receive Crown funding for increases to wages, public transport authorities are required to demonstrate that operators:
  - 8.1 have contributed to increased wages consistent with indexation since the previous living wage adjustment on 1 September 2021, and
  - 8.2 have committed to pass on future indexation payments to increase drivers' wages
- 9 agree that public transport authorities are also required to provide local share to match Crown funding at the normal funding assistance rate, unless they have already contributed that amount in advance of Crown funding
- 10 agree that, where funding is provided for bus driver wages from the NLTF, public transport authorities are required to provide matching funding for both NLTF and Crown funding
- 11 note that through the development of the bus industry standard agreement for urban bus drivers, the sector has identified further improvements to bus driver terms and conditions, and will be administered in three tranches, subject to available funding

12 s 9(2)(f)(iv)

*Financial implications*

13 note that, as part of Budget 2022 decisions on 11 April 2022 and detailed Budget 2022 financial recommendations agreed to by the Minister of Transport and the Minister of Finance (Joint Ministers) on 14 April 2022, Cabinet and Joint Ministers:

13.1 agreed to establish a tagged operating contingency in Vote Transport of the following amounts to provide for the establishment of nationally consistent terms and conditions to improve the retention and recruitment of bus drivers:

	\$m – increase/(decrease)				
<b>Vote Transport</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
<b>Minister of Transport</b>					
Retaining and Recruiting Bus Drivers – Improving Terms and Conditions – Tagged Operating Contingency	-	13.000	15.000	16.000	17.000

13.2 agreed that the drawdown of the contingency requires Cabinet approval (establishing any new appropriations as necessary), upon Cabinet's satisfaction with progress to agree nationally consistent terms and conditions via a bus industry standard agreement for urban bus drivers

14 agree that, as Cabinet is now satisfied with progress to agree nationally consistent terms and conditions via a bus industry standard agreement for urban bus drivers, the contingency funding in recommendation 13.1 can now be drawn down

15 agree to establish the following new multi-year appropriation, to run from 1 September 2022 to 30 June 2027:

<b>Vote</b>	<b>Appropriation Minister</b>	<b>Appropriation Administrator</b>	<b>Title</b>	<b>Type</b>	<b>Scope</b>
Transport	Minister of Transport	Ministry of Transport	Retaining and Recruiting Bus Drivers	Non-Departmental Output Expense	This appropriation is limited to improving the retention and recruitment of bus drivers through more attractive terms and conditions.

16 approve the following change to appropriations to give effect to the decision in recommendation 14 above, with a corresponding impact on the operating balance:

	<b>\$m – increase/(decrease)</b>
<b>Vote Transport</b>	<b>2022/23 to 2026/27</b>
<b>Minister of Transport</b>	



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Non-Departmental Output Expense: Retaining and Recruiting Bus Drivers MYA	61.000
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- 17 note that the indicative spending profile for the new multi-year appropriation described in recommendation 16 above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27
	13.000	15.000	16.000	17.000	-

- 18 agree that the proposed change to appropriations above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 19 agree that the expenses incurred under recommendation 16 above be charged against the tagged operating contingency described in recommendation 13 above
- 20 note that, following the adjustment detailed in recommendation 19 above, the tagged operating contingency described in recommendation 13 above is now exhausted and therefore closed.

Authorised for lodgement

Hon Michael Wood  
Minister of Transport