



18 August 2022

OC220654

**Hon Michael Wood**  
**Minister of Transport**

**Action required by:**  
Monday, 22 August 2022

## **FURTHER ADVICE ON PROGRESSING THE BUS INDUSTRY STANDARD AGREEMENT**

### **Purpose**

To seek your agreement on how to require operators and public transport authorities (PTAs) to contribute to increased bus driver wages to be eligible for Crown funding and on how to standardise bus driver wage rates.

### **Key points**

- We recommend requiring operators to contribute funding for increased wages that is consistent with indexation, and to commit to applying indexation to wage rates in future. This is our preferred approach, as it reflects practice to date, and ensures Crown funding can be allocated relatively quickly. It also ensures operators contribute in a sustainable way and should ensure wages increase in-line with the Living Wage in future.
- We do not recommend you pursue the NZ Council of Trade Unions' (NZCTU) proposal for operators to fund a benchmark wage because it will lead to inequitable outcomes. The contribution of operators will be dependent on whether the relevant PTA has already self-funded an increase to bus driver wages. The NZCTU proposal would also likely delay the allocation of funding to support wage increases, with operators seeking to prove they cannot meet the benchmark wage.
- For moving towards standardised wage rates nationally, we recommend:
  - targeting driver base rates in the first instance
  - implementing different target base rates between urban and regional bus drivers, reflecting the different cost of living pressures
  - retaining some flexibility in how PTAs apply their local share
  - allocating Crown funding to PTAs based on what it costs for each operator to reach a target standard base rate.
- We do not recommend pursuing, on a national basis, the NZCTU proposal to allocate Crown funding according to market share of operators. This approach would be very similar in practice to an across-the-board increase to base rates, as the Crown

funding is insufficient to reach the Bus Industry Standard subgroup's target base rates. However, we note this approach may be desirable in Wellington, where our proposed approach could result in significant inequity.

- Our proposed approach is more complex to implement than the across the board increases originally proposed, which will delay increases to bus driver wages. However, we consider it is the best way to ensure all parties contribute to wage increases and standardise wage rates with the available funding.
- The Bus Driver Conditions Steering Group has provided feedback on this advice. Overall, there is broad support for the proposed approach. Union representatives have requested more detail and noted potential differing views on the terms agreed for the Bus Industry Standard. We expect to resolve these by sharing the draft Cabinet paper with the Steering Group, to ensure all members agree on what is proposed. The Ministry of Education also noted that the proposal will have flow on effects for the school bus services it funds.
- We have provided a timeline for Cabinet approval from paragraph 38. To proceed as soon as possible, we have indicated a very tight timeline that will require quick turnaround for feedback. We are also proposing that departmental and Ministerial consultation occur concurrently over a week.

## Recommendations

We recommend you:

- |   |  |          |
|---|--|----------|
| 1 | <b>agree</b> to require operators to contribute funding for increased wages that is consistent with indexation, and to commit to applying indexation to wage rates in future | Yes / No |
| 2 | <b>agree</b> to the following principles for distributing Crown funding:   | Yes / No |
|   | a) targeting driver base rates in the first instance   | Yes / No |
|   | b) implementing different target base rates between urban and regional bus drivers   | Yes / No |
|   | c) retaining some flexibility in how public transport authorities apply their local share  | Yes / No |
|   | d) allocating Crown funding to public transport authorities based on the cost for each operator reaching a target standard base rate   | Yes / No |
| 3 | <b>indicate</b> whether you would like to allocate funding to Greater Wellington Regional Council contracted operators according to market share to support equity in wages  | Yes / No |



Matt Skinner  
Acting Manager, Mobility and Safety

18 / 08 / 2022

Hon Michael Wood  
Minister of Transport

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Minister's office to complete:

Approved

Declined

Seen by Minister

Not seen by Minister

Overtaken by events

**Comments**

**Contacts**

Name	Telephone	First contact
Matt Skinner, Acting Manager, Mobility and Safety	s 9(2)(a)	✓
Jacob McElwee, Principal Adviser, Mobility and Safety	s 9(2)(a)	

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OFFICIAL INFORMATION ACT 1982

## FURTHER ADVICE ON PROGRESSING THE BUS INDUSTRY STANDARD AGREEMENT

### You have indicated you want to require operators to contribute to wage increases to be eligible for Crown funding

- 1 Officials had proposed using the Budget 2022 funding to provide an approximate \$1.60 an hour increase to all driver wages, with local share bringing this to \$3 an hour (OC220550 refers).
- 2 Following your feedback, we outlined three options to allocate the Budget 2022 funding (OC220623 refers).
- 3 You indicated your preference is to require contributions from both operators and public transport authorities (PTAs) before the Crown funding is provided. You also indicated your preference that the funding should be used to standardise wage rates, rather than applying an across-the-board increase. This briefing recommends an approach for achieving these outcomes.
- 4 We have consulted representatives of the Bus Driver Conditions Steering Group (which includes representatives from Te Manatū Waka, Waka Kotahi, PTAs, operators and unions) in developing this advice.

### We recommend requiring all operators to contribute consistent with indexation – and commit to applying indexation to wage rates in future

- 5 Under our preferred approach, to be eligible for Crown funding PTAs will need to demonstrate that operators have contributed to increased bus driver wages. We recommend PTAs be required to demonstrate that:
  - 5.1 operators have contributed increased wages consistent with indexation<sup>1</sup>, at a minimum
  - 5.2 operators commit to pass on future indexation payments to increase drivers' wages.
- 6 These requirements would apply to all operators, regardless of region and regardless of the pre-increase wage rate.
- 7 This is our preferred approach for the following reasons.
  - 7.1 **Reflects practice to date:** PTAs have already worked with operators to increase wages, independent of Crown funding. 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

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<sup>1</sup> Indexation is a quarterly adjustment that is made to the operators' contract payments, to reflect the changes to input costs such as diesel, road user charges, and driver wages. The cost of indexation is met by fares, local share from PTAs, and the National Land Transport Fund.

once recent indexation flows through to contract payments in Auckland<sup>2</sup>. We understand Environment Canterbury has also required an operator contribution in-line with indexation.

- 7.2 **Will ensure Crown funding can be allocated:** Operator contributions in-line with indexation should be relatively easy to implement and will therefore allow Crown funding to be used to increase driver wages relatively quickly.
- 7.3 **Will ensure the operator contribution is sustainable:** Requiring a minimum contribution to wage increases in-line with inflation ensures wage increases are affordable for operators, and do not impact their financial sustainability. It also does not stop operators going further and offering higher wages or greater benefits should they want to, nor does it penalise those operators who have already increased wages.
- 7.4 **Ensures all operators contribute:** All public transport services are indexed, regardless of driver wages at the time of procurement. As a result, all operators should be required to contribute to wage increases.
- 7.5 **Ensures wages are increased in-line with the Living Wage:** Following wage increases, all participating PTAs and operators will be paying more than the Living Wage. However, contract payments will still be adjusted in-line with increases to labour costs, including the Living Wage. The proposed approach will ensure operators increase wages in-line with future Living Wage adjustments.

*The NZ Council of Trade Unions (NZCTU) has proposed a benchmark wage for operators to be eligible for Crown funding*

- 8 NZCTU has proposed operators be required to ensure wages meet a specified hourly rate to be eligible for Crown funding. For example, NZCTU has proposed this rate could be \$24 an hour.
- 9 We consider this option would be difficult to administer because some PTAs have already unilaterally increased bus driver wages, and per the discussion above, have required operators to contribute in-line with indexation. We also understand more PTAs (including Environment Canterbury and Otago Regional Council) are looking to work with operators to fund increases to driver wages – which may be progressed prior to Crown funding being made available.
- 10 As a result, a national benchmark would be inequitable – since many operators would be able to meet a benchmark because of PTA funding – rather than by making a larger contribution to wage increases. An alternative would be to set variable benchmarks by region. However, we consider a benchmark that is differentiated by region would be very complex to determine and administer and would likely still result in inequity (depending on the extent to which PTAs and operators have already funded wage increases).
- 11 If this option was pursued, there is a further risk that operators may be unable to afford meeting the benchmark requirement, meaning their drivers will miss out on the

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<sup>2</sup> Indexation payments to Auckland operators are received 6 months after the relevant index is updated.

Crown funding for a further uplift towards a nationwide standard. In such circumstances, we suggest operators would be required to prove they cannot meet the benchmark, for example, by allowing a third party to review their financial information. However, this would take time, and therefore delay the allocation of funding to support any wage increase.

**We recommend PTAs that have self-funded increases to bus driver wages be eligible for Crown funding**

- 12 Regardless of the operator contribution to wage increases, PTAs will also need to make a contribution. However, some PTAs have already made contributions to increase wages, without National Land Transport Fund (NLTF) co-investment. We understand other PTAs are considering doing the same in advance of Crown funding.
- 13 Late last year, Greater Wellington Regional Council (GWRC) announced an increase to \$27 an hour for bus drivers on flat wage rates, and a comparable increase to wages for NZ Bus drivers (reflecting other penal rates). More recently, Auckland Transport has also announced an initial increase to an average of \$25.62 an hour (without any NLTF share) and is seeking NLTF funding to support a further increase.
- 14 Officials originally proposed local share being provided alongside Crown funding to increase wages. However, if PTAs self-fund increases to bus driver wages before Crown funding is confirmed, requiring a further contribution would be inequitable and potentially unaffordable for PTAs that have already maximised their possible contributions.
- 15 As noted in OC220550, PTAs should be required to match Crown funding at the normal funding assistance rate (FAR). We recommend that if PTAs have already matched the share of Crown funding at the normal FAR, no further contribution is required of PTAs. This would apply regardless of whether there is additional NLTF investment.

**You have indicated you would like to standardise driver wage rates nationally**

- 16 In OC220550 we recommended Crown funding is used to fund an across-the-board increase to driver wages. You have indicated your preference to standardise wages, which has more complex and inter-related considerations for achieving wage increases, including:
  - 16.1 what aspect of wages should be standardised
  - 16.2 what should be the target standard
  - 16.3 what funding should be used to achieve standardisation
  - 16.4 how to determine the funding allocation to different operators and/or PTAs.

*To standardise wages, we recommend targeting driver base rates in the first instance*

- 17 The initial increases in wages being funded by operators, PTAs and the Crown funding is the first step towards the minimum standards agreed by the Bus Industry

Standard sub-group. Of note, the minimum standards include a penal late night rate for work after 9pm and a split shift allowance.

- 18 To progress towards a standard, we recommend targeting standardisation of driver base rates in the first instance. Base rate is the most readily standardised aspect of pay. It also reflects that at present, for most operators in most regions, the base rate is the primary determinant of wages for a given driver duty. However, as set out in paragraphs 26-28 below you may wish to adopt a different approach for GWRC – which has already gone through a process of standardising driver wages.

*We recommend the target base rate differs between urban and regional bus drivers*

- 19 The Bus Industry Standard sub-group proposed different standard wage rates for urban and regional bus drivers, reflecting the different cost of living. They proposed a base rate of \$30 per hour for urban drivers and \$28 per hour for regional drivers. This is not affordable within the current allocation of \$61 million over four years.
- 20 For the purposes of the Crown funding, we recommend different base rates are also targeted, with an approximate difference of \$2 an hour between the urban and regional drivers. The exact amounts will still need to be confirmed, due to other factors such as the potential for co-funding from the NLTF, which could affect the final figures.
- 21 We will need to confirm which PTAs and/or towns and cities are considered 'urban' or 'regional' for the purposes of setting the different rates. There are some differences within PTAs, for example Wellington compared to Wairarapa or Kāpiti in Greater Wellington, or Tauranga compared to Rotorua in Bay of Plenty. There are also some areas that may be considered regional, but comprise areas with high costs of living, for example Queenstown. We will provide more advice on how PTAs are classified in the draft Cabinet paper.

*We recommend the Crown funding is used to standardise base rates, but flexibility is retained for how other funding contributions are used*

- 22 As noted above, some PTAs have self-funded wage increases and more will likely follow prior to Crown funding being available. The base rate increases in Auckland have been across the board, rather than targeting a standard, and we anticipate future PTA-funded increases will be along the same lines. As a result, we do not think it is feasible to require PTAs to retrospectively fund standardisation. We therefore recommend Crown funding is used to standardise wages, but PTAs retain flexibility in how they apply their local share.

*We recommend Crown funding is allocated to PTAs based on what it costs for each operator to reach a target standard base rate*

- 23 Subject to PTAs and operators contributing to increased wages, PTAs should be allocated Crown funding based on achieving a target standard base rate. The target will likely need to be informed by:

23.1 driver base rates achieved following PTA and operator contributions in each region

23.2 driver base rates achieved following any contribution/s from the NLTF

23.3 timing of expenditure and available funding for future years.

- 24 This will mean drivers with higher base rates will receive a smaller increase to wages because of the Crown funding and vice versa. Targeted increases to wages will ultimately be necessary to achieve a standard, which will support better labour market outcomes in the long-term. However, some stakeholders may consider the allocation of Crown funding on this basis inequitable.

*The NZCTU has also proposed Crown funding be allocated based on the market share of operators*

- 25 The NZCTU has suggested Crown funding could be allocated based on a percentage of market share in full time equivalent (FTE) bus drivers they employ. Under this proposed approach each PTA, subject to meeting eligibility criteria, would receive a proportion of the Crown funding equivalent to its share of services. PTAs would then be required to allocate the funding to operators based on market share, as determined by FTE.
- 26 In practice, this proposal is very similar to an across-the-board increase to base rates, because the Crown funding is not sufficient to reach the Bus Industry Standard sub-group target base rates. As a result, it is unlikely to achieve standardisation of wages, and existing differences in wages will likely be carried over after the Crown funding is allocated. As a result, we do not recommend pursuing this proposal nationally to achieve a standard. However, as set out below you may wish to use this approach to allocate Crown funding in Wellington.

*Our proposed approach to standardisation would likely result in significant wage disparity for GWRC contracted operators*

- 27 Our initial assessment is the target base rate in metro areas would likely be close to \$27 an hour, assuming no NLTF contribution. This would mean the bus drivers on flat rate wages in Wellington would likely receive little or no increase to their wages. Meanwhile, we understand NZ Bus Wellington drivers would likely receive a significant increase to their base rate because it is lower than the base rate of \$27 an hour for other Wellington drivers. 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.
- 28 One option would be to allocate funding to GWRC according to the NZCTU proposal – such that a proportion of funding is allocated to GWRC operators based on market share, and it is used to:
- 28.1 initially increase base rates to (or towards) the target rate
  - 28.2 subsequently support a penal rate for work after 9pm and/or a split shift allowance (for operators that reach the target rate).
- 29 We do not have information on the likely cost of supporting penal rates or split shift allowances in Wellington or nationally. As a result, we cannot provide an indication of what could be achieved with the funding available.



**The recommended approach will be complex to administer and will delay increases to bus driver wages**

- 30 We consider the recommended approach is the best available to ensure operators and PTAs contribute to wage increases, and to standardise wage rates with the funding available. However, the recommended approach is significantly more complex than across the board increase to base rates (which was initially proposed) and will therefore take longer to implement. This will delay increases to bus driver wages.
- 31 It also may not be possible to standardise wages nationally. We understand that some regions may not be willing to provide local share for an increase to wages, on the basis that it is not an investment priority and/or they cannot afford it. This is the case for many of the smaller public transport networks, where there is less of an issue with driver retention. Furthermore, costs of living are generally lower in these regions, meaning less pressure on existing wages.

**The Bus Driver Conditions Steering Group is broadly supportive of the proposal, but also has some feedback**

- 32 We have shared our advice with the Bus Driver Conditions Steering Group, which includes representatives from central government, PTAs, unions and operators. Overall, members of the Steering Group support the proposal.
- 33 We have received feedback from unions<sup>3</sup> that while they see merit in the proposal, there is further detail that still needs to be addressed, specifically that:
- 33.1 the process for adjusting rates should be through collective bargaining in the first instance, followed by negotiations for individual employment agreements
  - 33.2 the interim target wage rates should be agreed by the Steering Group
  - 33.3 additional funding for allowances for Wellington drivers be discussed and agreed with the Tramways Union before proposals are made
  - 33.4 confirmation is needed of what has been agreed by the Steering Group for allowances as part of the national standard
  - 33.5 further detail is needed about what the final standard is and how it will be reached.
- 34 We have not provided this level of detail in this briefing, but instead are seeking your agreement on the principles that will allow the detail to be worked through. Furthermore, the Waka Kotahi Board decision on the Auckland Transport (AT) funding request for increasing driver wages will have a significant impact on the target wage rates nationally. Should the Board agree to AT's proposal, this may also mean NLTF funding will be made available for other PTAs (if requested), including Wellington.

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<sup>3</sup> We received feedback from NZCTU, on behalf of NZCTU, First Union and Tramways Union.

- 35 Additionally, some of the feedback from unions suggests there may be differing views on the terms agreed for the Bus Industry Standard. For example, the advice from Waka Kotahi, which was reflected in the previous draft Cabinet paper, indicated the sector had agreed to a penal late night rate of 1.2 times the base rate. However, unions have indicated they agreed to a rate of 1.25.
- 36 Considering these issues, we propose to share the next draft of the Cabinet paper with the Steering Group, subject to your agreement. This will ensure that Steering Group members have visibility of what is being proposed and to ensure it reflects what has been agreed, including the level of detail unions have requested. We anticipate sharing the draft with the Steering Group while departmental and Ministerial consultation is underway.
- 37 We have also received feedback from the Ministry of Education (MoE). MoE has noted that the proposals for Crown funding to reach a target standard base rate will have implications for MoE contracted and funded bus services – likely placing upward pressure on school bus driver wages. We will reflect this consideration in the draft Cabinet paper.

**Should you agree with our recommended approach, we will provide you with an updated draft Cabinet paper for feedback**

- 38 Subject to your agreement, we will provide you with an updated draft Cabinet paper that reflects this new approach as well as decisions made by the Waka Kotahi Board. As the Budget 2022 funding is a tagged contingency, you are required to seek Cabinet approval for distribution of the funding.
- 39 A timeline is provided below. The timeframes for Cabinet are very tight and require departmental and Ministerial consultation to occur concurrently for one week.

*Table 1: Timeline for Cabinet report back*

Date	Milestone
22 August 2022	Officials receive your feedback on this briefing
31 August 2022	Updated draft Cabinet paper provided
5 September 2022	Officials receive your feedback on the draft Cabinet paper
5–13 September 2022	Departmental and Ministerial consultation occurs, including consultation with the Bus Driver Conditions Steering Group
15 September 2022	Final paper lodged
21 September 2022	DEV
26 September 2022	Cabinet