

## Cabinet Paper material

### Proactive release

Minister & portfolio	Hon Chris Hipkins, Minister of Education
Name of package	Lifting School Bus Driver Wages to Ensure Consistency with Wage Increases for Public Transport Bus Drivers
Date considered	19 December 2022
Date of release	10 February 2023

#### These documents have been proactively released:

**Cabinet paper: Lifting School Bus Driver Wages to Ensure Consistency with Wage Increases for Public Transport Bus Drivers**

Date considered: 19 December 2022

Author: Minister of Education

**Cabinet minute: CAB-22-MIN-0589**

Date considered: 19 December 2022

Author: Cabinet office

**Cabinet minute: SWC-22-MIN-0243**

Date considered: 14 December 2022

Author: Cabinet office

Some deletions have been made from the documents as the information withheld does not fall within scope of the Minister's portfolio responsibilities, and is not relevant to the proactive release of this material.

You can read the Official Information Act 1982 here:

<http://legislation.govt.nz/act/public/1982/0156/latest/DLM64785.html>



# Cabinet

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Report of the Cabinet Social Wellbeing Committee: Period Ended 16 December 2022

On 19 December 2022, Cabinet made the following decisions on the work of the Cabinet Social Wellbeing Committee for the period ended 16 December 2022:

Out of scope



SWC-22-MIN-0243

**Lifting School Bus Driver Wages to Ensure Consistency with Wage Increases for Public Transport Bus Drivers**  
Portfolio: Education

CONFIRMED

Out of scope



Out of scope



Rachel Hayward  
Secretary of the Cabinet

## Budget Sensitive

Office of the Minister of Education

Chair, Cabinet Social Wellbeing Committee

### **Lifting school bus driver wages to ensure consistency with wage increases for public transport bus drivers**

#### **Proposal**

- 1 This paper seeks Cabinet's agreement to lift driver wages for school bus services funded by the Ministry of Education. The proposal will ensure proportionality with increases in wages for public transport bus drivers.

#### **Relation to government priorities**

- 2 The proposal supports the continued reliability of school transport services, services which provide crucial support to students and communities, especially in rural areas. Reliable and effective school transport services are required to give effect to the Government's objective of barrier-free access for all learners, as articulated in the Statement of National Education and Learning Priorities.
- 3 By ensuring greater consistency in wage rates between the school transport and public transport services, the proposal also supports the Government's priority to provide an inclusive economy where economic growth is shared by all.

#### **Executive summary**

- 4 The Ministry of Education (the Ministry) offers school transport assistance to students where distance or a lack of suitable public transport present a barrier to education. Ministry-funded school bus services operate almost exclusively in rural areas and are distinct from public transport services delivered by Public Transport Authorities (PTAs), for example regional councils/Auckland Transport. School transport assistance is funded from an annual appropriation of \$241.7m in 2022/23.
- 5 On 3 October 2022, Cabinet agreed to provide Crown funding to assist Public Transport Authorities to improve wages for public transport bus drivers towards \$30 per hour for urban services and \$28 for regional services. School bus services funded by the Ministry of Education are not included in this initiative, as they are funded entirely through Vote Education.
- 6 I consider it important that wages for school bus drivers should not fall out of step with wages for comparable public transport services. While staff turnover rates and route cancellations are low across the school bus services sector my proposal to uplift school bus driver wages in this sector will anchor the stability within that sector.
- 7 While the Ministry already compensates operators for changes in input costs during the contract term, including labour costs, the Ministry cannot currently ensure that increases are passed on to drivers. I am proposing to provide additional funding to operators in regions where public transport driver wage initiatives have taken effect, based on a 10.2% uplift on driver wages. This uplift will require up to \$6.59m per annum in additional non-departmental funding to implement and, if agreed, the

incurred expenses will be charged as a pre-commitment against Budget 2023 operating allowance.

## Background

- 8 While the ultimate responsibility for getting students to and from school sits with caregivers, the Ministry offers school transport assistance to over 100,000 students who face barriers to education due to distance or a lack of suitable public transport.
- 9 The Ministry is the second-largest single purchaser of passenger transport services in New Zealand (after Auckland Transport). Ministry-funded school bus services operate almost exclusively in rural areas and are distinct from, but sometimes overlap with, public transport services delivered by PTAs.
- 10 School transport assistance is funded from an appropriation of \$241.7m in 2022/23 and delivered through a mix of direct contracting and bulk funding. Most Ministry-funded school transport assistance is provided through Daily Bus services (transport for students to and from school through services provided by commercial bus operators) and technology bus services (transport for year 7 and 8 students attending schools that do not have technology facilities), Specialised School Transport Assistance (SESTA) services contracted directly by the Ministry with suppliers; and Direct Resourcing and Māori Medium School (MMS) agreements with schools and kura that provide schools/kura with bulk funding to arrange transport services for their own students.

*Operators are already compensated for changes in labour costs, but the Ministry cannot currently ensure that increases are passed on to drivers*

- 11 The Ministry does not specify a wage floor or base rate in any of its existing contracts or funding agreements. However, operators under contract with the Ministry to deliver school transport services are compensated for changes in input costs (including labour costs) during their contract term through a contract price adjustment mechanism.
- 12 Contract price adjustments are based on the diesel bus index, which is updated quarterly by Waka Kotahi and includes a labour cost component. Contract price adjustments do not require a contract variation unless a supplier successfully claims exceptional external factors that are not compensated by movements in the index. The labour cost component of the diesel bus index has increased by 6.8 percent between tender close and June 2022, and this increase has been reflected in payments to operators. The Ministry does not have a mechanism under its current contracts to ensure that driver wages increase in line with indexation. If the appropriation envelope is too small to accommodate the indexation change further funding will be sought through OBU, which is the Ministry's current practice.
- 13 On 3 October 2022, Cabinet agreed to draw down funding of \$61m over four years secured through Budget 2022 to support improvements to wages for public transport bus drivers [CAB-22-MIN-0418 refers]. Representatives from the public transport sector identified improvements needed to wages and conditions to stabilise the workforce. This includes moving towards base rates of \$30 per hour for urban public transport drivers and \$28 for regional public transport drivers.
- 14 I want to ensure that wages for school bus drivers do not fall out of step with comparable public transport services. Under this initiative, PTAs will determine whether they aim to meet the regional or urban target base rate, based on the needs

of their regions. To receive additional funding, PTAs will be required to match Crown funding, demonstrate that operators have contributed to increased wages in line with indexation, and ensure that operators will continue to pass on future increases to drivers.

- 15 School bus drivers perform essential work across the country to get our children to and from school safely, and it is not acceptable for Ministry-funded school bus services to be staffed based on lower wages than comparable public transport services. For this reason, I propose to provide Ministry-contracted school bus operators with additional funding to ensure as much consistency as possible in wage rates between school bus services and comparable public transport services.

**I am seeking Cabinet's agreement to apply wage increases for school bus drivers at a regional level, based on a 10.2% uplift**

- 16 Ministry-funded school bus services primarily run in rural and peri-urban areas. For this reason, I propose that wage increases should be calculated using a nominal rate of \$26 per hour. This will better align school bus driver wages with the target rate of \$28 for regional public transport drivers.
- 17 Officials have advised that the lower rate for Ministry-funded services relative to regional public transport services is consistent with industry expectations, established through discussions with the Bus and Coach Association and other suppliers under contract with the Ministry to deliver school bus services. While there is some overlap between the school bus driver and public transport workforce, the wage differential reflects differences in terms and conditions, as well as the different demands and pressures on public transport drivers, such as unsocial hours and split shifts. I am aware that there is considerable variation in how operators structure their employment contracts, and that real wages can vary considerably from the headline rate.
- 18 I am also aware that, under the approach to progressing the bus industry standard agreement agreed by Cabinet, there is considerable flexibility in how PTAs may use Crown funding to stabilise public transport services in their regions, particularly during the first tranche of funding. A regionally specific approach to lifting school bus driver wages is necessary to ensure that increases in school bus driver wages do not lead to inequitable outcomes or create unintended consequences. For this reason, I intend to provide increased funding to operators only in regions where, as a result of additional Crown funding provided to PTAs, public transport driver wages are demonstrably higher than wages for comparable school bus services.
- 19 Officials have advised that achieving the nominal rate of \$26 per hour in some regions will require the Ministry to increase the driver wage component of operators' tendered prices by up to 10.2 percent, over and above previous contract price adjustments. This approach assumes that operators have already increased school bus driver wages in line with indexation. I am advised that at least 66 percent of Daily Bus routes were staffed at a rate of \$22.10 (the living wage at the time of contract award) at the commencement of new contracts in January 2022. If wages have kept pace with indexation, operators who committed to pay \$22.10 per hour when contracts were awarded should offer their drivers approximately \$23.60 per hour as of September 2022.
- 20 Under this approach, there will continue to be differences in base rates for school bus drivers across the country and within regions. While a nominal rate of \$26 has been used to calculate the maximum percentage increase, this will not constitute a 'wage

floor' or a minimum base rate that operators must meet to receive an increase in funding. As a result, application of the proposed approach will not necessarily deliver any guarantee that operators will pay their drivers \$26 per hour.

- 21 Operators who accept an increase in their tendered price will be required to opt in to receive this funding through a variation to their existing contracts. The terms of this contract variation will be agreed by negotiation with operators in each region. To ensure that additional funding and any future increases are passed on to drivers, the contract variation will contain the following conditions:
- 21.1 the agreed percentage increase is applied to driver wages at an agreed date; and
- 21.2 driver wages continue to increase annually in line with indexation.
- 22 As a result, although there is no guarantee that operators will pay their drivers \$26 per hour, the proposed approach will ensure that all future adjustments in the labour component of the diesel bus index are passed through to drivers.
- 23 To ensure consistency with the increase in funding for Daily and Technology Bus contracts in some regions, I will also look to make corresponding increases in SESTA contracts and bulk funding agreements with schools and kura in those regions.

#### **Timeframes**

- 24 The precise timing of the wage uplift is dependent on contract negotiations with school bus service providers. The earliest any uplift would occur would be February 2023 (at the start of the school term) and the latest is expected to be May 2023 once all contracts have been renegotiated.

#### **Financial Implications**

- 25 This uplift will require up to \$6.59m per annum in additional non-departmental funding to implement from 2023/24 onwards and, if agreed, the incurred expenses will be charged as a pre-commitment against Budget 2023 operating allowance. Any costs incurred in 2022/23 will be expensed to the Ministry of Education's baseline appropriation for School Transport.

#### **Legislative Implications**

- 26 There are no legislative implications arising from this paper.

#### **Population Implications**

- 27 The proposal does not have significant implications for specific population groups. However, as Ministry-funded school transport assistance is provided almost exclusively to rural communities, any measure to ensure the continuity and ongoing reliability of school transport services has implications for caregivers and students who live in these communities, especially where there are limited alternative transport options.

#### **Human Rights**

- 28 The proposals in this paper do not have human rights implications.

### Consultation

- 29 The Treasury, Te Manatū Waka – Ministry of Transport, and Waka Kotahi have been consulted on this paper. The Department of Prime Minister and Cabinet has been informed.

### Communications

- 30 Subject to Cabinet agreement, I intend to make a public announcement regarding these decisions as soon as possible.

### Proactive Release

- 31 This paper will be proactively released pursuant to Cabinet Office circular CO (18) 4 within 30 business days of Cabinet confirmation of decisions. Proactive release is subject to redaction as appropriate under the Official Information Act.

### Recommendations

The Minister of Education recommends that the Committee:

- 1 **agree** to apply wage increases for school bus drivers at a regional level, based on a 10.2% uplift;
- 2 **note** that the wage uplift is anticipated to occur between February and May 2023 following the conclusion of negotiations with service providers with any costs incurred in 2022/23 funded within the appropriation's baseline;
- 3 **note** that the School Transport appropriation is subject to annual forecast adjustments based on the diesel bus index, which is updated quarterly and drives the adjustments to the contract prices;
- 4 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above, with a corresponding impact on the operating balance and net debt:

	\$m – increase/(decrease)				
<b>Vote Education</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27 &amp; Outyears</b>
<b>Minister of Education</b>					
Non-Departmental Output Expense:	-	6.59	6.59	6.59	6.59
School Transport					
<b>Total Operating</b>	<b>-</b>	<b>6.59</b>	<b>6.59</b>	<b>6.59</b>	<b>6.59</b>

- 5 **agree** that the proposed change to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;



- 6 **agree** that the incurred expenses under recommendation 4 above be charged as a pre-commitment against the Budget 2023 education cost pressure operating allowance;
- 7 **note** this expense will be counted against the indicative Education cost pressure envelope for Budget 2023.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education

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# Cabinet Social Wellbeing Committee

## Minute of Decision

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### Lifting School Bus Driver Wages to Ensure Consistency with Wage Increases for Public Transport Bus Drivers

Portfolio Education

On 14 December 2022, the Cabinet Social Wellbeing Committee:

- 1 **agreed** to apply wage increases for school bus drivers at a regional level, based on a 10.2 percent uplift;
- 2 **noted** that the wage uplift is anticipated to occur between February and May 2023, following the conclusion of negotiations with service providers with any costs incurred in 2022/23 funded within the School Transport appropriation's baseline;
- 3 **noted** that the School Transport appropriation is subject to annual forecast adjustments based on the diesel bus index, which is updated quarterly and drives the adjustments to the contract prices;
- 4 **agreed** to the following changes to appropriations to give effect to the policy decision in paragraph 1 above, with a corresponding impact on the operating balance and net debt:

Vote Education Minister of Education	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Non-Departmental Output Expense		6.59	6.59	6.59	6.59
School Transport					
<b>Total Operating</b>		<b>6.59</b>	<b>6.59</b>	<b>6.59</b>	<b>6.59</b>

- 5 **agreed** that that the change to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 6 **agreed** that the incurred expenses under paragraph 4 above be charged as a pre-commitment against the Budget 2023 education cost pressure operating allowance;

- 7 **noted** the above expense will be counted against the indicative Education cost pressure envelope for Budget 2023.

Rachel Clarke  
Committee Secretary

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**Present:**

Rt Hon Jacinda Ardern  
Hon Kelvin Davis  
Hon Dr Megan Woods  
Hon Chris Hipkins  
Hon Carmel Sepuloni (Chair)  
Hon Andrew Little  
Hon Peeni Henare  
Hon Jan Tinetti  
Hon Dr Ayesha Verrall  
Hon Aupito William Sio  
Hon Meka Whaitiri

**Officials present from:**

Office of the Prime Minister  
Office of the Chair  
Officials Committee for SWC

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