



**RED BUS LIMITED**

**STATEMENT OF INTENT**

**2010/11**

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## Statement of Intent for the year ending 30 June 2011

### Introduction

This Statement of Intent ("Sol") is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The Sol specifies for Red Bus Ltd the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable Sol is a public and legally-required expression of the accountability relationship between the company and its shareholder Christchurch City Holdings Ltd (CCHL).

The Sol is reviewed annually with CCHL and covers a three year period.

Red Bus Ltd's registered office is at 120 Ferry Road, Christchurch.

Contact details for both the Chairperson and Chief Executive are:

Address:	120 Ferry Road, Christchurch
Telephone No:	03 379 4260
Web site:	<a href="http://www.redbus.co.nz">www.redbus.co.nz</a>
Email:	<a href="mailto:redbus@redbus.co.nz">redbus@redbus.co.nz</a>

Red Bus Ltd is a Council-Controlled Trading Organisation ('CCTO') for the purposes of the Local Government Act 2002.

### Objectives

a) Red Bus Ltd's Vision is

**"To be recognised as Leading the way in Passenger Transport"**

The achievement of this vision will result in Red Bus being recognised as:

- The preferred urban passenger service operator by the Regional Council
- The people's choice for urban passenger transport
- The employer of choice for staff in the passenger transport industry
- A leading advocate for high quality, efficient and effective public transport
- A good corporate citizen in terms of social impacts and environmental impacts with a positive financial contribution to our shareholder and therefore into the wider community.

b) Red Bus Ltd's key objectives are to:

- Operate and grow a successful, sustainable and innovative business in providing passenger transport and associated infrastructural ownership and services. (Performance targets - asset and revenue growth)
- Manage and appropriately develop assets and property owned or occupied by Red Bus to maximise its business value while acknowledging the land use and transport strategies within the Urban Development and Regional Land Transport Strategies. (Performance target – Dividend)
- Build strong and positive relationships with the Regional and local Councils to support contractual commitments, improve service reliability and encourage appropriate investment in passenger transport services and infrastructure. . (Performance targets – Trip compliance)
- Deliver reliable and efficient services within an ethical and environmentally appropriate framework that aims to reduce environmental effects. (Performance targets – trip compliance, fleet utilization, fleet composition, emission test results,)
- Achieve ongoing improvement in customer service through staff development to promote and encourage the use of public transport in our operational regions. . (Performance targets – Safety management and Qualified staff)
- Promote a prosperous economy in the greater Christchurch area and Canterbury through effective and efficient passenger transport services. . (Performance targets - trip compliance, patronage growth)
- Support Council's vision to achieve an effective and reliable transport system through collaboration and an integrated leadership approach with other organisations, including the CCHL group.

### **Nature and scope of activities**

Red Bus is in the business of passenger transport and associated infrastructural ownership and services. These activities include the management and operation of:

- contracted urban passenger transport services
- passenger transport charter services
- commercial passenger transport services
- mobile billboards and advertising
- complementary ancillary services
- property and asset management
- fleet maintenance and management
- fleet refuelling and cleaning
- driver training and development

## **Governance**

This statement gives readers an overview of the company's main corporate governance policies, practices and processes adopted or followed by the Red Bus Board.

### **Role of the Board of Directors**

The Board is responsible for the proper direction and control of the company's activities. The Board guides and monitors the business affairs of Red Bus on behalf of the shareholder, Christchurch City Holdings Limited (CCHL), to whom it is accountable, within the framework of the mission and objectives that are set out in this Statement of Intent.

All directors are required to comply with a formal Code of Conduct, which is based on the New Zealand Institute of Directors' Code of Proper Practice for Directors.

The Chairperson conducts a formal annual performance review for directors.

### **Responsibility to the Shareholder**

#### ***Statement of Intent***

In accordance with the Local Government Act 2002, the company submits a Statement of Intent for the coming financial year to CCHL. The Sol sets out the company's overall objectives, intentions and financial and performance targets.

#### ***Information Flows***

The Board aims to ensure that CCHL is informed of major developments affecting the company's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to CCHL through periodic reports to CCHL and through the annual and half-yearly report.

### **Board Composition**

The directors of Red Bus Ltd are appointed by the shareholder CCHL for terms of up to three years. Board membership currently consists of five non-executive directors.

### **Board Committees**

#### ***Audit and Risk Management Committee***

Membership of the committee consists of all members of the board, and the committee is regulated by approved terms of reference that address membership, functions and responsibilities, authorities and reporting procedures. The committee is chaired by a director who is not the Board Chairman. The Red Bus Audit and Risk Management Committee monitors risk management processes, oversees the findings of external auditors and monitors legislative compliance.

### **CE Review and Remuneration Committee**

Membership of the committee consists of the Board Chairman, who also chairs the committee, and one other director. The committee convenes at least annually to review the performance of the Chief Executive and make recommendations to the board on the Chief Executive's remuneration package. In considering remuneration policy, the committee has regard to performance and comparable market rates.

### **Other Committees**

The board establishes other committees on an as needed basis to deal with issues as they arise.

### **Ratio of shareholder' funds to total assets**

The forecast ratio of shareholder' funds to total assets for the next three years are:

2010/11	2011/12	2012/13
57.1%	61.4%	66.4%

The long-term target for the ratio of debt to debt plus equity is within a range of 15% to 30%.

The forecast capital structure for the next three years is:

	2010/11	2011/12	2012/13
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
<i>Equity</i>	31.9	32.3	32.8
<i>Debt</i>	21.0	17.0	12.7

**NB. The final asset ratio and capital structure are ultimately dependent on tender success rates and any additional fleet investment.**

### **Accounting policies**

Red Bus Ltd has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached to this Statement of Intent.

## Performance targets

### a) Financial performance targets

The financial performance targets for the company are as follows:

	2010/11	2011/12	2012/13
	\$m	\$m	\$m
<i>Revenue</i>	31.2	32.3	33.1
Interest coverage ratio	At least 1.1 times	At least 1.5 times	At least 1.5 times

### b) Operational performance targets

Target	Performance measure 2010/11
No. of passengers	At least 10 million passengers
Minimum fleet utilization in peak	At least 85%
Percentage of service trips not run	Less than 1%
Percentage of service trips starting on time	At least 97%

### c) Environmental and Social performance targets

#### Environmental

- Maintaining the fleet in good operational condition
- Monitoring and mitigating our business environmental impact
- Evaluating alternative fuels and technologies with the practical potential to reduce emissions or reliance on non-renewable resources.
- Recycling used lubricants and components wherever practicable
- Purchasing replacement buses with the highest emission standard that are able to be financially supported by service contracts

### Carbon Neutrality Approach

Fossil fuels are the primary energy source for any heavy transport activity. The present fossil fuel carbon footprint is unavoidable without the development of large scale carbon neutral fuel sources and the availability of appropriate engine technology at an acceptable cost. The highly cost competitive nature of urban public transport means that there is little scope to accommodate any cost premium through direct carbon offsetting within the present Environment Canterbury contract arrangements.

The Red Bus approach to reducing its carbon footprint is to firstly calculate the present carbon footprint, identify and then implement appropriate technological and operational changes while maintaining an industry competitive cost structure.

Red Bus lobbies ECan for services and schedules that achieve an increase in the number of passengers carried for each service kilometre.

### Social

- Encouraging all staff to achieve an NZQA qualification
- Ensuring health and safety performance exceeds compliance requirements
- Maintain good employer practices with an active EEO policy
- Provide an Employee Assistance Programme for staff and their family
- Support and/or sponsorship of various community and school programmes

Performance target - <b>Environmental</b>	Performance measure 2010/11
Bus fleet composition	At least 85% of the bus fleet have engines that meet Euro 2 or higher emission standards <sup>1</sup>
Exhaust emission testing	Annual exhaust emission tests (95% pass rate)
Carbon Neutrality	Complete carbon footprint assessment

Performance target – <b>Social/Community</b>	Performance measure 2010/11
Workplace Safety Management	Maintain at least Secondary ACC accreditation
No of staff with NZQA qualifications	More than 200 or 55% of staff hold a NZQA qualification

<sup>1</sup> A large number of the Red Bus fleet was purchased prior to Euro engine standards being introduced. Since 1997 and 2002 all buses purchased meet or exceed Euro 2 and Euro 3 respectively except for the four Euro 4 Hybrid shuttles that operate the CBD shuttle service. Buses purchased from 2009 forward will meet or exceed the Euro 4 standard.

## **Distributions**

Red Bus Ltd will pay dividends to the shareholder after taking into account its profitability and future investment requirements. The dividends payable to the shareholder will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

There is some uncertainty regarding the impact of recent tender rounds and the conversion to gross contracts. In view of this, and the extensive fleet replacement programme recently undertaken by the company, no guidance is given on the amounts of future dividends.

Dividend policy will be reviewed following a period of trading experience and known outcomes under the new tender and pricing regime.

## **Information to be provided to shareholder**

An annual report will be submitted to the shareholder. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholder.

Half-yearly reports will also be provided to the shareholder. These reports will contain unaudited information and comply with NZ IAS 34.

An annual report will be produced consistent with the "triple bottom line" (or sustainability) reporting philosophy. Annual reports will outline the company's objectives and performance in terms of financial, environmental and social outcomes.

The Statement of Intent will be submitted to the shareholder for consultation annually, as required by the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholder.

The company will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the shareholders in accordance with the requirements of the Local Government Act 2002.

## **Acquisition/divestment procedures**

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of Red Bus Ltd.

When the subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, it will be subject to consultation with the shareholder.

Major transactions as defined in the Companies Act 1993, s129 (2), will be subject to shareholder approval by special resolution.

Notwithstanding the above, if Red Bus Ltd is considering a significant acquisition or disposal of assets or securities, the shareholder will be consulted with as much lead-time as is commercially practicable in the prevailing circumstances.

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management. Board control of any subsidiary is exercised by Red Bus's directors and staff.

### **Compensation sought from local authority**

At the request of the shareholder, the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken.

### **Estimate of commercial value of shareholder's investment**

The major assets of Red Bus are the vehicle fleet and the property at 120 Ferry Road.

The property was purchased at market value on 28 October 1996. Land and buildings are typically revalued every three years and were last valued at 30 June 2007.

Forecasts and recent actuals for shareholder equity in Red Bus are:

Financial Year end	Shareholder equity (\$m)	Notes
30 June 2008	28.3	Actual
30 June 2009	31.1	Actual
30 June 2010	31.8	Forecast
30 June 2011	31.9	Forecast
30 June 2012	32.3	Forecast
30 June 2013	32.8	Forecast

### **Role in the Christchurch City Council group and regional economy**

#### **a) Commercial relationships within the CCHL group**

Recognising that there are potential synergies with the CCHL group, Red Bus will liaise with other CCHL companies as appropriate seeking material and worthwhile joint initiatives, including knowledge sharing within a successful business framework.

#### **b) Role in the growth of the regional economy**

The direct economic contributions by Red Bus to the Canterbury economy are:

- As a major local employer (currently of more than 400 people), the direct contribution from employees wages, and the resultant economic multiplier effect within the local economy.
- Shareholder dividend payments.
- Local supplier payments for plant and equipment, consumables and other services.
- Increasing the value of CCHL's investment in Red Bus.
- The 're-cycling' back into the Canterbury economy of a portion of the various taxes paid by Red Bus.

Red Bus also contributes by providing:

- A viable and efficient passenger transport service in partnership with ECan, Christchurch City Council, NZTA and other stakeholders.
- Christchurch residents with safe and convenient transport.
- Efficient transport services to students (who tend to be strong users of public transport) to support the Canterbury education sector in attracting and retaining students.
- A lower environmental impact transport option through the use of the latest environmental-friendly engine technology in new vehicles and low emissions fuels leading to improved air quality and a lower overall carbon footprint for Christchurch City.
- A user friendly, efficient and affordable alternative to car travel that assists in reducing peak traffic volumes and congestion in the city. Lower traffic volumes means the potential to eliminate or defer significant infrastructural investment in roading network development.

### c) **Urban Development Strategy implications**

Red Bus is not directly able to action or advance the Urban Development Strategy because ECan's arms length tendering process and the highly competitive nature of Canterbury public transport do not provide Red Bus with a legitimate role within the UDS implementation strategy other than an advisory or influential capacity. Red Bus has a business objective to remain a positive and effective voice for development of Public Transport in Canterbury.

Red Bus is prepared to pursue any public transport related opportunities that may arise from the development and implementation of the Urban Development Strategy.