



RED BUS LIMITED

STATEMENT OF INTENT

2018/19

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Statement of Intent for the year ending 30 June 2019

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: www.redbus.co.nz
Email: redbus@redbus.co.nz

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

Vision:

To influence & grow passenger transport through world leading innovation.

Our Mission:

To move more people more often.



Our People

Our relationships & partnerships with the people who power us.



Our Resources

Our fleet, the sites, IP & systems that keep our customers moving.



Our Community

Our stakeholders and customers whom we proudly serve.



Our Future

Our innovation & sustainability programmes that get us ready for tomorrow.

Our Purpose:

Making transport personal.

Nature and scope of activities

Current activities include the management and operation of:

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

Community Outcomes

Red Bus will continue to support our community's wider objectives through:

- strong governance and stewardship
- safe and reliable passenger services
- sustainable use of resources
- good customer service
- innovation to reduce climate impacts and broaden travel options

This approach underpins our community's aims for:

- a 'liveable' city¹
- strong communities
- a healthy environment²
- a prosperous economy³.

Our objectives and initiatives in this SoI highlight the ways these outcomes are enacted.

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.

¹ Increased use of active, public transport and shared transport opportunities

² Energy is used efficiently, greater proportion of energy from renewable sources

³ Skilled workforce paid appropriately

All directors are required to comply with a formal Code of Conduct, which is consistent with the New Zealand Institute of Directors' Four Pillars of Governance and the FMA corporate governance principles and guidelines to ensure best practice governance.

The Chairperson conducts an annual performance review with 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 the Shareholder. The Statement of Intent 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. Board membership currently consists of four 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.

Health and Safety 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 Health and Safety Committee monitors risk management processes, safety performance and 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 and equitable relativity across the company.

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:

2018/19	2019/20	2020/21
87.6%	87.6%	87.5%

The forecast capital structure for the next three years is:

	2018/19	2019/20	2020/21
	\$m	\$m	\$m
Equity	38.2	38.1	37.9
Loans	0.0	0.0	0.0

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 detailed accounting policies are available in our most recent annual report as published on our company website. www.redbus.co.nz/assets/Uploads/Annual-Report-2017.pdf

Investment policy

Red Bus assesses each investment proposal against the following key criteria:

- Degree of fit with the Strategic plan
- Operational or financial benefits
- An acceptable rate of return
- Cultural fit if a business acquisition
- Intellectual property retention
- Ability to leverage from or create a strategic benefit
- Asset condition acceptable or fit for purpose.

All investment projects in excess of the Chief Executive's delegated capital expenditure authority will be formally reviewed at Board level at appropriate timing points and following completion.

Remuneration policy

Red Bus employee remuneration:

- Is based on the role that is performed and its classification with similar positions treated consistently
- Is linked to the performance of the individual in the role and their achievement of company objectives
- Is determined by the characteristics of the position without gender or other discrimination⁴
- Regular benchmarking of wages and salaries to account for market trends and company strategy
- The company is especially conscious of its public responsibilities in the setting of remuneration for senior executives, which is closely managed by the Board and made publically available via the annual report.

Remuneration is subject to an annual review. Increases or performance payments for managers reporting to the Chief Executive are to be approved by the Board.

Performance targets

Financial

The company is exploring growth opportunities that are currently in the exploration phase and consequently are not included within the projected financial results that follow.

The financial performance targets for the company are as follows:

	2018/19	2019/20	2020/21
	\$m	\$m	\$m
Revenue	20.5	20.8	21.3
NPAT	0.0	(-0.1)	(-0.2)
EBITDA	2.8	2.9	3.0
Net debt as a % of equity	<20%	<20%	<20%
Net Interest as a % of total revenue	<3%	<3%	<3%
Liquidity %	>120%	>120%	>120%

⁴ Section 21 Human Rights Act 1993

	Performance targets	Performance Measures
<p>Our People</p> <p>Our relationships and partnerships with the people who power us.</p>	<ol style="list-style-type: none"> 1. Lost time accidents 2. Workplace safety compliance 	<ul style="list-style-type: none"> • Less than 15 LTIFR per million worked hours • Maintain Tertiary ACC accreditation or equivalent
<p>Our Resources</p> <p>Our fleet, the sites, IP and systems that keep our customers moving</p>	<ol style="list-style-type: none"> 1. Fleet utilization 2. Fleet composition 	<ul style="list-style-type: none"> • At least 85% peak vehicle utilization • At least 90% Euro 2 or higher emission standard
<p>Our Community</p> <p>Our Stakeholders and customers whom we proudly serve.</p>	<ol style="list-style-type: none"> 1. Mystery Shopper survey results 2. Customer complaints 3. Number of urban passenger trips 4. % of service trips starting on time 5. % of service trip not run 6. Dividend 7. Shareholder Equity 	<ul style="list-style-type: none"> • Achieve at least 85% in ECan mystery shopper survey • Fewer than 3 complaints per 100,000 customer trips • At least 3.4 million passenger trips • At least 97% • Less than 1% • None proposed • \$38.2m 2018/19 rising to \$37.9m by 2020/21
<p>Our Future</p> <p>Our innovation and sustainability programmes that get us ready for tomorrow</p>	<ol style="list-style-type: none"> 1. Implement electric bus service 2. Fleet carbon footprint 3. Revenue growth 4. Sustainability Policy 	<ul style="list-style-type: none"> • Carbon footprint reduction 280 tonnes per annum • Maintain at least 3% below the 2015 benchmark • \$20.5m 2018/19 increasing to \$21.3m by 2020/21 • Establish sustainability plan and benchmarks in 2018-19

Environmental and Social Commentary

Environmental

- Maintain the fleet in good operational condition
- Monitor and mitigate our business environmental impact
- Recycle used lubricants and components wherever practicable
- Purchase replacement buses with the highest emission standard that are able to be financially supported by service contracts
- Research the economic and operational feasibility of Electric, Electric/Hybrid and Diesel or alternative fuel hybrid vehicles for operation within the Canterbury passenger transport network.
- Develop or apply technology or operational solutions to lower the overall environmental footprint

Social

- Ensure health and safety performance exceeds compliance requirements and aiming for a zero harm workplace
- Progressively train drivers through a Safe and Fuel Efficient Driving programme
- Maintain good employer practices with an active EEO policy
- Provide an Employee Assistance Programme for staff and their family
- Support the development and uptake of Public Transport
- Offer a safe and economic alternative to self-drive for tourists

Distributions

Red Bus Ltd will pay dividends to the shareholder after taking into account the company's financial position, profitability, working capital requirements 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.

To assist the shareholder for budgeting purposes the following indicative forecasts are provided. Dividend values will be reviewed as the results of future urban tenders and their associated fleet investments are known.

2018/19	2019/20	2020/21
\$0	\$0	\$0

Information to be provided to shareholder

An annual report will be submitted to the shareholder. The annual report will include audited financial statements and with sufficient commentary to provide an informed assessment of the company's performance and financial position during the reporting period for the shareholder.

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

A quarterly report will be provided to shareholders which reports on health and safety and performance within the company.

Annual reports will include 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 or material 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.

Land, buildings and fleet have been revalued at 30 June 2018. These revaluations confirm the carrying value in the financial statements of Red Bus are appropriate.

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

Financial Year end	Shareholder equity (\$m)	Notes
30 June 2016	37.7	Actual
30 June 2017	37.9	Actual
30 June 2018	38.2	Budget
30 June 2019	38.2	Budget
30 June 2020	38.1	Budget
30 June 2021	37.9	Budget

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 across the group as appropriate seeking material and worthwhile joint initiatives, including knowledge sharing and exploring local or all of government procurement opportunities 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 230 employees), the direct contribution from employee wages, and the resultant economic multiplier effect within the local economy.
- Local supplier payments for plant and equipment, consumables and other services.
- Increasing the value of CCHL's investment in Red Bus.
- The 'recycling' back into the Canterbury economy of a portion of the various taxes paid by Red Bus.

Red Bus also contributes by providing:

- An efficient urban passenger transport service in partnership with ECan, Christchurch City Council, NZTA and other stakeholders.
- A safe, friendly and reliable transport experience for Christchurch residents on Red Bus services.
- Innovative industry leadership in the reduction of operational environmental impacts, innovation environmental -friendly engine technology in new vehicles. The objective being reduced energy consumption, improved air quality and lower CO₂ emissions.
- Advocating for enhanced public transport services and programmes to encourage the use of public transport.
- Memorable experiences for visitors and residents on group tours and Free Independent Traveller services.