

3 September 2021

## **Future of New Zealand Cycle Trail Inc.**

### **Background**

For some time now the New Zealand Cycle Trail Incorporated's (NZCT Inc) Board has been aware there is confusion regarding its mandate and role in relation to Ngā Haerenga, New Zealand Cycle Trails. In recent weeks the NZCT Inc Board has discussed a number of alternatives to the current "system model" for oversight and management of Ngā Haerenga New Zealand Cycle Trails with the Minister of Tourism and officials.

In the Board's view the current situation is contributing to blurred accountabilities, lost opportunity, lack of accountability and increased risk for all parties. This situation is no longer tenable.

This paper outlines the current consideration of the issues and the nature of possible alternatives. The Board wishes to engage with Trail Trusts on what members see as being the most appropriate way forward. We have built time into the Trail Forum Agenda for Trail Trust representatives specifically to have discussions on this matter.

We also want to be clear that we see it as incredibly important that nothing we do undermines the Ngā Haerenga New Zealand Cycle Trails. Rather, we are raising issues which in the Boards' view require resolution so that Ngā Haerenga New Zealand Cycle Trails is well positioned and supported to mature and deliver value to New Zealand over the next decade and beyond.

### **The Changing Context**

Three significant factors have contributed to NZCT Inc raising this issue with members, namely that:

- The expectation that the network and NZCT Inc would become self-funding over time has not been realised;
- Ngā Haerenga New Zealand Cycle Trails is largely a domestic tourism and amenity asset rather than a significant international tourism attraction as originally envisaged;

- Given the Crown's on-going role as funding and accreditor of the network, the lack of clarity regarding risk ownership and management for the Crown and NZCT Inc is not tenable.

### *Self-funding network and NZCT Inc*

When Ngā Haerenga New Zealand Cycle Trails was initially established in circa 2010, the expectation from government was that government and local communities would fund the establishment of the national cycle trail network of "Great Rides" and that the trail network would become a significant driver of international tourism. There was also the clear government expectation that over time the trails would become self-funding. NZCT Inc was established as an Incorporated Society to deliver support and services to the Ngā Haerenga New Zealand Cycle Trails members and similarly was expected to become self-funding over time. It was in this context that the current system model was designed.

In the 10+ years since its incorporation, NZCT Inc has worked closely with member Trails, MBIE, Waka Kotahi and DoC to support the development and quality improvement of the network. Over that time the Ngā Haerenga New Zealand Cycle Trails has flourished, with trails becoming ever more popular and delivering significant value to the communities in which they're embedded. The existence of the trails has supported new commercial opportunities in many rural areas where opportunities for SMEs are otherwise limited.

Over this same period NZCT Inc has investigated a number of ways to become self-funding in its own right but has not been able to achieve this state. All parties now accept that NZCT Inc will require ongoing government funding to fulfil its current scope of activities. The on-going reliance of NZCT Inc on MBIE funding for survival while ostensibly being a member-based organisation creates an inherent conflict for NZCT Inc - one which creates an uncomfortable tension for the Board.

It has also become apparent that individual trails are unlikely to achieve a financially sustainable state due to the challenges with monetising access and activities on the trail. As a consequence, the trails will continue to require a mix of local government, community and central government funding in order to achieve and maintain a level consistent with the mandated Trail Standards.

In 2015 the on-going funding requirement was formally recognised by Ministers and annual funding of \$8m was committed by the Government (administered by MBIE and with input from Waka Kotahi, DoC and NZCT Inc) for trails to undertake maintenance and repairs, enhancements and extensions to the existing Great Ride network. NZCT Inc has since won recognition of the value in each trail having a dedicated Trail Manager and the need for this to be part-funded by MBIE. These funding streams have provided trails with some more financial certainty.

### *International Tourism attraction*

When Ngā Haerenga New Zealand Cycle Trails was initially conceived it was considered that it would primarily be an international tourism product and attract new visitors to New Zealand. In reality, New Zealanders have been the vast majority of trail users, with a mix of local walkers, cyclists and domestic tourists. Significantly, since the commencement of the COVID-19 pandemic, trails have played an increasingly important recreational and wellbeing amenity value to local communities. This has seen usage of trails increase significantly with a large number of local users accessing the trails for amenity, fitness and well-being reasons.

With changes to international travel associated with COVID-19 its unlikely at least for the medium term that international tourism will be a significant portion of the network's patronage.

### *Risk management*

Given the Crown's role with regards to on-going funding and accreditation of the network, the Crown and NZCT Inc have been giving consideration to the risk for both parties associated with the "accreditation" of the network, particularly with a health and safety and wider compliance lens. At present, roles and responsibilities are not well defined and consequently the risk exposure for all parties is increased. This situation is not sustainable for either party.

It is in this context that the role and function of NZCT Inc going forward needs to be considered.

### **NZCT Inc's current operations**

NZCT Inc is a tiny organisation with one employee, a small number of part-time contractors (approximately 1 FTE in total) and an FY20/21 annual base budget of approximately \$350k. In addition MBIE funded NZCT Inc to undertake a number of projects in relation to the network.

Funding is sourced as follows:

Trail Members	Membership fees	\$52,000
Commercial Sponsorships	Other commercial revenue	\$30,000
MBIE	Insitutional/Core Funding	\$250,000
<b>Total Base Funding FY 20/21</b>		<b>\$332,000</b>
MBIE	Service Level Agreement Project Funding	\$250,000
<b>Total Funding FY 20/21</b>		<b>\$582,000</b>

Consistent with its member-based organisation role, NZCT Inc's core areas of focus have been:

- Providing a range of tools and information to trails to support their operations and sharing best practice across the network, with a key element of that support being anchored around the two day Annual Trail Forum.
- Capability building including workshops with trails and operators
- Advocacy for the Ngā Haerenga New Zealand Cycle Trails network with government and other stakeholders.
- Providing marketing and promotions of the Ngā Haerenga New Zealand Cycle Trails network and support the promotion of individual trails as appropriate whilst promoting the Ngā Haerenga New Zealand Cycle Trails brand both domestically and nationally.
- Conducting “Warrant of Fitness” (WoF) inspections that identify opportunities for improvement in customer experience.

It should be noted that the costs associated with providing these services are significantly higher than the membership fees received from members and rely on MBIE funding for delivery.

NZCT Inc’s work in these areas has successfully raised the standard and consistency of customer experience across much of the network.

Projects undertaken under contract to MBIE under a Service Level Agreement over the last year include:

- The development of the Quality Assurance Framework with a view to managing health and safety and wider compliance with agreed Trail standards and to assess the quality of the user experience
- The Trail Signage Project, associated with growing the Ngā Haerenga New Zealand Cycle Trail brand
- The Annual Network Evaluation project
- Cycle Tourism Insights project

These projects have taken a large amount of Janet’s and the Board’s time over the last year.

## **Future of NZCT Inc Discussion**

As outlined above, the Board has experienced a number of frustrations over an extended period resulting from the blurred accountabilities and lack of role clarity. The Board believes this is contributing to lost opportunity, lack of accountability and increased risk for all parties.

In recent weeks the Board has sought clarification from MBIE regarding the Crown's view of its role in relation to Ngā Haerenga New Zealand Cycle Trails. In the course of those discussions it has become clear that there are a number of functions the Crown will assume in order to both ensure the enduring value of the network and also to manage its risk in relation to the same. With this clarity the Board believes that now is the right time to review NZCT Inc's role.

### *Consideration of Options*

The NZCT Inc Board have discussed the following alternatives to the current operating context:

#### Option 1:

Fold current NZCT Inc functions that are more aligned with the government's long term stake in the network back into government and dis-establish NZCT Inc.

#### Option 2:

Reconstitute NZCT Inc as a non-membership organisation within the wider State sector (possibly as a Crown Entity) with an independent board comprised of government representatives and/or independent directors. The Board does not consider this would be a viable alternative due to the costs associated with establishment and operation.

#### Option 3:

Option 1 plus establish a new NZCT Inc as a more traditional membership organisation funded by members.

The NZCT Inc Board considers Option 3 to be the best way forward and we would like to explain our thinking and understand Trails views. Key issues the Board wishes to explore are what services would Trails want to continue to receive from a new NZCT Inc and what level of membership fee is supportable to achieve this. We had intended to allocate time at the Trail Forum to explore this with Trails, however with having to postpone the Forum and with the current restrictions on travel we're still working through how best to progress this discussion but will be in touch in the next few days as the lockdown situation becomes clearer.

### **NZCT Inc Board**