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## B1: 2017/18 Budget Explanation Paper

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**Purpose of Paper:** To set out the strategy, summary and detail of the proposed 2017/18 Budget and seek Council approval.

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## Introduction

This paper sets out the strategy for the 2017/18 Budget, the background information regarding that budget, and proposes for Council's agreement a draft budget along with associated notes. It should be read alongside the 2017/18 Activity Plan.

## 1. Budget Strategy 2017/18

The proposed 2017/18 Budget is based on the following key points:

- Context of ongoing reviews to develop financial strategy and our organisation, which will lead to clearer direction during the course of the year and which may give rise to changes in approach.
- Stability in the approach to our work, with Focus Areas and our Issues, Community and International work evolving but not markedly changing from 2016/17.
- A desire to deliver high quality work whether on new projects or on ongoing work.
- A dividend expectation of \$4.281m (as set out in the NZRS draft 2017/18 Statement of Direction and Goals), a decrease of \$53k compared with 2016/17's forecast (\$4.334m)
- No expectation of significant year-end changes to the predicted 2016/17 dividend.
- A degree of reassurance that globally, new gTLDs are still not placing as much pressure on ccTLD markets as seemed possible or likely – and this assumption holds despite the recent lift in .kiwi registrations, due to the way the registrations came about.
- Ongoing product and service development to seek additional revenue.
- Recognising the resources needed to deliver the current baseline activities and the activities outlined in the 2017/18 Activity Plan, with an emphasis in all our work on **focus, outreach** and **simplicity**.

## 2. 2016/17 EOY Forecast

The preliminary result for the year-ending 2016/17 is a surplus of \$499k, compared to a budgeted deficit of \$294k; an improvement of \$793k.

This positive variance is predominantly explained by two major movements:

1. Receipt of an unbudgeted dividend wash-up payment in July of \$665k,
2. Under-spend of expenditure of \$256k.

This is offset by the budgeted usual dividend payment being \$136k lower than budgeted.

Note that there are also myriad other smaller movements as explained in the detailed financial information that fully account for the differences.

The following table highlights the areas that are over or under.

2016/17 EOY Forecast	2016/17	2016/17	Variance	
Internet New Zealand Incorporated	EOY Forecast	Budget	Amount	%
<b>Income</b>	4,834	4,257	577	12%
<b>Expenses</b>				
Internet Issues	797	694	103	13%
Community Funding	577	600	-23	-4%
Community Engagement	533	616	-83	-15%
International Engagement	106	179	-73	-70%
Communications/Outreach	213	307	-94	-44%
Operations	1,122	1,157	-35	-3%
Overheads	467	471	-4	-1%
Governance & Membership	478	513	-35	-7%
International Events	42	54	-12	-28%
<b>Total Expenses \$000s</b>	<b>4,335</b>	<b>4,591</b>	<b>-256</b>	<b>-6%</b>
Issues Grant funding		-40		
<b>Net Ordinary Income \$000s</b>	<b>499</b>	<b>-294</b>	<b>793</b>	<b>159%</b>
<b>Operational Expenditure reconciliation</b>				
<b>Total Expenses \$000s</b>	<b>4,335</b>	<b>4,551</b>		
Less subsidiaries reimbursement of shared services	-387	-387		
<b>Total Expenses \$000s</b>	<b>3,948</b>	<b>4,164</b>		

### 3. 2017/18 Budget Summary compared with 2016/17

2017/18 Draft Budget	2016/17	2017/18	Change over Last Year	
Internet New Zealand Incorporated	Budget	Draft Budget	Amount	%

<b>Income</b>	4,287	4,887	600	14%
<b>Expenses</b>				
Internet Issues	654	654	0	0%
Community Funding	600	700	100	17%
Community Engagement	646	911	265	41%
<b>** Gross NetHui costs inct **</b>				
International Engagement	179	148	-31	-17%
Communications/Outreach	307	325	18	6%
Operations	1,157	1,297	140	12%
Overheads	471	478	7	1%
Governance & Membership	513	471	-42	-8%
International Events	54	0	-54	-100%
<b>Total Expenses \$000s</b>	<b>4,581</b>	<b>4,985</b>	<b>404</b>	<b>9%</b>
<b>Net Ordinary Income \$000s</b>	<b>-294</b>	<b>-98</b>	<b>196</b>	<b>-67%</b>
<b>Operational Expenditure reconciliation</b>				
<b>Total Expenses \$000s</b>	<b>4,581</b>	<b>4,985</b>		
Less subsidiaries reimbursement of shared services	-387	-387		
<b>Total Expenses \$000s</b>	<b>4,194</b>	<b>4,598</b>		

The budget proposes an operational budget expenditure limit of \$4.985 million for 2017/18. This represents an increase of 9% or \$404,000 compared with the 2016/17 operating limit of \$4.581 million.

This increase represents an increase of \$100k of funding, new FTE's in both Community and the Internet Issues, and the costs associated with recruiting new staff. It also includes an increase in capex expenditure (as detailed under the capex heading) for 2017/18 that will increase depreciation by \$47k.

In previous years, we reported a net figure for NetHui (only the difference between income and expenditure was reported). This year, for greater transparency, we include gross income and expenditure from the event, and have amended 2016/17 amount to be like-for-like.

Details of the changes in expenditure are presented under the work areas that follow.

## 4. 2017/18 Budget: Breakdown by Area

### Internet Issues and Focus Areas

The issues area has budgeted the same as last year, \$654k, there will be a new FTE to do work previously done by contractors, and more Community outreach. Total remuneration will decrease due to more of the Deputy Chief Executive's time being spent on Operations.

2016/17	2017/18	Change over Last Year
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Internet Issues	Budget	Draft Budget	Amount	%
Internet Issues	30	27	-3	-10%
Access	55	65	10	18%
Creative Potential	80	80	0	0%
Trust	50	80	30	60%
Issues Operating Costs	439	402	-37	-8%
<b>Internet Issues</b>	<b>654</b>	<b>654</b>	<b>0</b>	<b>0%</b>

## Community Funding & Engagement

The Community area of work is reporting an overall increase of \$365k, due to increased community funding, another staff member to reflect greater work on membership issues (now located in the community team), and more transparent accounting for NetHui.

Community funding is being increased by \$100k as per the overall five-year strategic plan to increase funding to \$1 million, assuming diversification in revenue.

Recruitment of an additional FTE and associated recruitment costs contribute to the remaining increase, a reduction in costs in other areas have been achieved to partly accommodate the extra cost.

The Annual stakeholder event and speaker series are budgeted for in the Community engagement area, this event and membership engagement will be managed by Operations and Community.

NetHui has been grossed up for greater transparency, as outline earlier, and the costs associated with a national NetHui are greater than those associated with the Roadshow last year.

	2016/17 Budget	2017/18 Draft Budget	Change over Last Year Amount	%
<b>Community Funding</b>				
Funding Rounds	280	230	-50	-18%
Strategic Partnerships	220	400	180	82%
Funding Other	100	70	-30	-30%
<b>Community Engagement</b>				
NetHui <b>**Gross costs**</b>	130	255	125	96%
NetHui community initiatives	30	0	-30	-100%
Sponsorship	50	40	-10	-20%
Speaker Series	0	25	25	100%
Annual Stakeholder event	0	20	20	100%
Community Operating Costs	436	571	135	31%
<b>Community</b>	<b>1246</b>	<b>1611</b>	<b>365</b>	<b>29%</b>

## International Engagement

This area of work has once again been scaled back, reducing costs by 17%.

	2016/17 Budget	2017/18 Draft Budget	Change over Last Year Amount	%
<b>International Engagement</b>				
Oceania Internet Governance Summer/Spring School	10	0	-10	-100%
Pacific IGF	0	10	10	100%
International Collaboration	169	138	-31	-18%
<b>International Engagement</b>	<b>179</b>	<b>148</b>	<b>-31</b>	<b>-17%</b>

## Communication and Outreach

Communications and Outreach is reporting an overall increase of \$18k, this is attributable to the costs associated to the commissioning and promoting of a promotional video, increasing our brand identity and promotion of our Community Grants, marketing our WHY, and promoting the UMR results. The UMR research has been moved from Governance to Communication and has been increased by \$5k.

As indicated in the Community engagement section the annual stakeholder events have been re-allocated from Communications to Community, as has the budget.

	2016/17	2017/18	Change over Last Year	
	Budget	Draft Budget	Amount	%
<b>Communication/Outreach</b>				
Annual stakeholder event	15	0	-15	-100%
Communication Strategy & Outreach	65	97	32	49%
UMR research	0	25	25	100%
Communication Operating Costs	227	203	-24	-11%
<b>Communication/Outreach</b>	<b>307</b>	<b>325</b>	<b>18</b>	<b>6%</b>

## Operations

Operations is budgeting an increase of \$147k, this is due to a number of factors. In part, it relates to a 51% increase in depreciation costs, based on the additional capex purchases of \$185k for the financial year 2017/18. As per policy we apply the depreciation rates advised by Inland Revenue for different types of capital expenditure. Much of our CAPEX is software or similar, which is depreciated at rates of 48-50% per annum – thus driving larger total depreciation.

Remuneration which is attributable to the additional allocation of Deputy Chief Executive time to Operations, and 100% of the Events Lead (last year a percentage was allocated to International Events).

Other increases amount to \$10k, this is the net amount of decreases in accounting fees, advertising & marketing (now in Communications), consultants, printing and stationary, subscriptions and telecommunications, and increases in the general office, legal, and national travel which have been based on actual expenditure for 2016/17

Overheads have increased due to rent increase on the Auckland Office, and a cost reduction in other services.

	2016/17	2017/18	Change over Last Year	
	Budget	Draft Budget	Amount	%
<b>Operations</b>				
Remuneration	788	870	82	10%
Depreciation	93	140	47	51%
Operating Expenses	277	287	10	4%
Overheads	470	478	8	2%
<b>Operations</b>	<b>1628</b>	<b>1775</b>	<b>147</b>	<b>9%</b>

## Governance & Members

Governance and Members costs have been reduced due to the UMR research being reallocated to Communications, and other costs being reduced in-line with actual historic expenditure. Membership engagement will be managed by Community and Operations.

	2016/17	2017/18	Change over Last Year	
	Budget	Draft Budget	Amount	%
<b>Governance and Members</b>				
Governance	513	435	-78	-15%
Membership	0	36	36	100%
<b>Governance and Members</b>	<b>513</b>	<b>471</b>	<b>-42</b>	<b>-8%</b>

## International Events

There are no International Events planned for the financial year 2017/18.

## 5. 2017/18 Budget

The following tables provide a summary breakdown of 2017-18 financial and staffing resources over the work areas.

Activity	Expenses (\$000s)	
Issues	\$654	13%
Community Funding	\$700	14%
Community Engagement	\$911	18%
International Engagement	\$148	3%
Communications/Outreach	\$325	7%
Operations	\$911	18%
Overheads	\$478	10%
Group Services Recharged	\$387	8%
Governance & Membership	\$471	9%
<b>Total</b>	<b>\$4,985</b>	<b>100%</b>

Activity	People FTE	
Issues	2.9	18%
Community Funding	1.6	10%
Community Engagement	2.62	16%
International Engagement	0.25	2%
Communications/Outreach	2.3	14%
Operations	3.87	24%
Group Services Recharged	0.8	5%
Governance	1.29	8%
Membership	0.57	4%

<b>Total</b>	<b>16.2</b>	<b>100%</b>
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## 6. Capital Expenditure Budget

The proposed capital budget is \$185,000 (c.f. current year \$118,000), made up of the following items:

<b>Item</b>	<b>Amount</b>
Reception Furniture	\$22k
Telephone System	\$25k
Joan Meeting Room Assistant	\$4k
ICT Replacement	\$28k
Furniture & Fitting Wgtn (New staff)	\$10k
Core ICT improvements	\$20k
Furniture & Fitting Akld (New staff)	\$10k
Event Chairs & Trolleys	\$11k
Website development phase 3	\$30k
Membership System	\$25k

## 7. Other Matters

### a) Funding Operational Expenditure

As noted above, the major source of funding operational expenditure is the dividend from NZRS. A payment of \$4.281 million is currently projected for 2017/18, as forecast in the NZRS Draft 2017/18 Statement of Direction and Goals (SoDaG) dated February 2017.

This figure is subject to change, given the SoDaG has not been finalised – but we are not expecting any significant changes as it moves towards finalisation and approval at the May 2017 meeting of Council.

Any deficit resulting from a dividend adjustment along with the budget deficit of \$98,000 will be funded from retained earnings (expected to be \$6.1m at 31 Mar 2017, as noted this compares with the \$4.6m planned for in last year's Budget process).

### b) Reserves

Based on projected operational expenditure limits the financial reserves for 2017/18 as required by the Reserves Policy are to be maintained at a level of \$1,770,000 (2016/17: \$1,610,000). This is higher due to growing InternetNZ staffing.

### c) Community Funding

In the three-year projection 2017-2020 the Community Funding budget comes close to the \$1m target set out in the Strategic Plan. This year's Budget shows a further \$100k increase in funding, to \$700k.

## 8. Three-year Profit & Loss projections

Below is a high level, three-year profit and loss projection. The critical underlying assumptions are:

1. That dividends from NZRS are broadly in line with the amounts forecast in the draft NZRS SoDaG dated February 2017.
2. That InternetNZ continues to operate the same scope of activities in 2018/19 and 2019/20. Significant changes in organisational scope would change these forecasts.

3 year Forecast 2017-2020	2017/18	2018/19	2019/20
Internet New Zealand Incorporated	Draft Budget	Draft Budget	Draft Budget
<b>Income</b>	4,887	5,114	5,342
<b>Expenses</b>			
Internet Issues	654	659	679
Community Funding	700	800	900
Community Engagement *	911	861	886
International Engagement	148	152	156
Communications/Outreach	325	335	345
Operations **	1,297	1,336	1,306
Overheads	478	492	507
Governance & Membership ***	471	459	474
<b>Total Expenses \$000s</b>	<b>4,985</b>	<b>5,094</b>	<b>5,253</b>
<b>Net Ordinary Income \$000s</b>	<b>-98</b>	<b>20</b>	<b>89</b>
Retained Earnings Opening	6,214	6,116	6,136
<b>Retained Earnings Closing</b>	<b>6,116</b>	<b>6,136</b>	<b>6,225</b>
Cashflow Opening	6,100	5,957	5,947
<b>Cashflow Closing</b>	<b>5,957</b>	<b>5,947</b>	<b>6,035</b>

\* Community Engagement expenses reduce in 2018/19, as recruitment costs reduce

\*\* Operations costs reduce in 2019/20, as depreciation reduce.

\*\*\* Governance and Member costs reduce in 2018/19, as the org review will be complete

## Recommendations

1. That Council **receive** this paper and **agree** the strategy and high level composition of expenditure for the 2017/18 Budget.
2. That Council **approves** for 2017/18 an operational budget limit of \$4.985 million and a capital budget limit of \$185,000.
3. That Council **note and agree in principle** that should income turn out to be lower than expected, the operational and capital budget limits will be maintained, with funding to come from retained earnings.

Jordan Carter  
Chief Executive

29 March 2017