
B1: 2018/19 Budget Explanation Paper

Author:	Jordan Carter, Chief Executive
Purpose of Paper:	To set out the strategy, summary and detail of the proposed 2018/19 Budget and seek Council approval.

Introduction

This paper sets out the strategy for the 2018/19 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 2018/19 Activity Plan.

1. Budget Strategy 2018/19

The proposed 2018/19 Budget is based on the following key points:

- An assumption of revenue growth through a 3% increase in .nz domain name registrations (falling for planning purposes to 2% in the outyears)
- Maintaining cost controls so that the group runs a surplus
- The operational priority of maintaining our usual work as we conduct the merger of InternetNZ and NZRS
- A selected range of new or major projects that allow us to do work of the merger as well as BAU without causing staff overload
- Embedding a "cross functional" or horizontal projects approach where this will allow us to work more effectively
- Providing for a recalculation of the group's Strategy in the 2018/19 year

In the current business year, the new team will come together, and this will unlock new perspectives and ideas, new projects and suggestions. The strategy process around the middle of the year will do the same, incorporating member, stakeholder and Council input.

This new thinking will in turn lead to adjustments to the annual plan and budget, which we plan to propose for agreement following the Strategy Day and starting around 1 October (the half year point).

2. 2018/19 Proposed Budget compared with 2018/19 outline.

This paper provides the detail of the outline budget that was presented at the December Council meeting. It proposes a limit of \$2.220 million for direct costs and a limit of \$8.846 million for other operating expenses (Total limit of \$11.066 million) for 2018/19, a budget that finances "business as usual" for new-InternetNZ and provides for implementation of the Organisational Review (including building the new-InternetNZ).

	Original 2018/19 Forecast		Revised BAU 2018/19 Draft Budget		Merged BAU 2018/19 Draft Budget	Change
	NZRS	INZ	NZRS	INZ	INZ	+/-
Income						
Registry Fees	10,550		10,815		10,815	265
Broadband Map	105		54		54	-51
Domain Analytics	150		50		50	-100
Year End Deferred Adjustment's	-48		-48		-48	0
Shared Service Recharge		398		227	227	-171
Membership		15		15	15	0
Interest Received	285	57	285	57	342	0
Sundry Income		124		48	48	-76
Total Income	11,042	594	11,156	347	11,503	-133
Less Direct Expenses						
DNC Fee	1,800		1,320		1,320	-480
Other Direct Costs	895		900		900	5
Total Direct Expenses	2,695	0	2,220	0	2,220	-475
Less Other Expenses						
Communications		130		139	139	9
Community Engagement		491		348	348	-143
Community Funding		800		800	800	0
Governance Costs	203	439		559	559	-83
International Engagement/Travel	126	128	90	234	324	70
Issues		317		321	321	4
Office Costs	1,503	932	1,283	892	2,175	-260
Staff Costs	2,000	1,857	1,514	2,666	4,180	323
Total Other Expenses	3,832	5,094	2,887	5,959	8,846	-80
Total Expenses	6,527	5,094	5,107	5,959	11,066	-555
Net Profit (Loss)	4,515	-4,500	6,049	-5,612	437	422

3. 2018/19 Budget: Breakdown by Area

Income

The income budget presented here is based on the following

- Registry Fees on the actual number of domain names as at the date 31 March 2018, and a change from the 2% growth assumptions to 3% for 2018/19
- Actual deferred Income as at 31 March 2018
- The reduction to the Broadband and Domain Analytics revenue is due to reducing the budgeted amounts to current actuals
- Shared Services recharges reduces with the removal of shared expenses to NZRS (corresponding expense reduction for NZRS office costs)
- Sundry Income reduces due to the National NetHui being replaced by regional events

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Expenditure

Technology Services & Commercial

The area of Technology Services and Commercial are the costs associated with running of core products and technology.

Technology Services and Commercial budget has decreased by \$948k due to the disestablishment of a dedicated CE, and COO, also costs associated with International Travel, Operational Services and the Governance are now presented separately.

The largest direct cost, the DNCL fee, has reduced by \$480k from the \$1.8m that was forecast for 2018/19, due to cost reductions within DNCL. Other direct costs have increase marginally by \$22k.

		2017/18	2018/19	Change over Last Year	
		Budget	Draft Budget	Amount	%
Technology Services & Commercial					
.nz Operations	Direct Costs	2644	2168	-476	-18%
.nz Operations	Operational Costs	2534	1983	-551	-22%
.nz Marketing	Direct & Operational Costs	390	384	-6	-2%
Broadband	Direct & Operational Costs	91	147	56	62%
Domain Analytics	Operational Costs	28	57	29	104%
Technology Services & Commercial Total		5687	4739	948	17%

Technical Research

Research & Innovation budget has reduced by \$190K this reduction is also due to the disestablishment of a dedicated CE, and COO, and costs associated with International Travel, Operational Services and the Governance are now presented separately.

		2017/18	2018/19	Change over	
		Budget	Draft Budget	Last Year	%
				Amount	
Technical Research					
Technical Research	Operational Costs	580	462	-118	-20%
Biz Development	Direct & Operational Costs	134	62	-72	-54%
Technical Research Total		714	524	190	27%

Outreach & Engagement

The Outreach & Engagement function brings together the Community, Communications, Events and Membership teams into a consolidated budget. The proposed increase in budget of \$356k comes from an increase in funding of \$100k as per the Strategy, incorporation of Events & Membership (previously reported in Operational Services and Governance). This budget provides for a fully resourced team so delivery of the proposed Activity Plan for 2018/19 can be achieved.

		2017/18	2018/19	Change over	
		Budget	Draft Budget	Last Year	%
				Amount	
Communication/Outreach					
Community Funding					
	Funding Rounds	235	390	155	66%
	Strategic Partnerships	400	400	0	0%
	Funding Other	65	10	-55	-85%
Community Engagement					
	NetHui **Gross costs**	235	100	-135	-57%
	NetHui community initiatives	60	10	-50	-83%
	Sponsorship	50	75	25	50%
	Speaker Series	10	12	2	20%
	Membership	46	55	9	20%
	Community Operating Costs	462	710	248	54%
Communication					
	Communication Strategy & Outreach	90	91	1	1%
	UMR research	25	25	0	0%
	Communication Operating Costs	213	369	156	73%
Communication/Outreach Total		1891	2247	356	19%

Policy

The Policy work includes the Issues work and the responsibility for managing the .nz policy function, this additional work is proposing a new budget line of \$170k, the remaining increase in budget of \$76k is related to costs associated with the new organisation reporting design. While the issues operational net costs increase of \$76k is attributable to the new leadership design.

		2017/18	2018/19	Change over	
		Budget	Draft Budget	Last Year	%
				Amount	
Policy					

Internet Issues	65	65	0	0%
Access	83	95	12	14%
Creative Potential	80	28	-52	-65%
Trust	65	65	0	0%
Issues Operating Costs	397	513	116	29%
.nz Policy Development				
.nz Policy Development	0	170	170	100%
Policy Total	690	936	246	36%

International Engagement

As outlined earlier all International Engagement is now reported under this area, this includes previous engagement done by the NZRS team, and a new area around supporting the .nz policy. The proposed budget increase of \$164k has an allocation of additional resources of \$48k, the .nz policy support of \$44k, increased work in the ICANN, Pacific and IGF areas.

International Engagement	2017/18	2018/19	Change over Last Year	
	Budget	Draft Budget	Amount	%
ICANN	65	91	26	40%
Centr	25	23	-2	-8%
Registrar's	10	6	-4	-40%
Technical	63	51	-12	-19%
Pacific IGF	48	109	61	127%
Support nz policy	0	44	44	100%
International Collaboration	22	70	48	218%
International Engagement Total	233	394	161	69%

Organisational Services

Organisation Services budget as reduced due to the reallocation of Events into Outreach, and costs associated to the Deputy CE being reallocated under the new leadership design. Offset against these reallocations are a new FTE for Organisational Services under the new leadership organisational design. Inflationary increases amount for the small increase in operating and overheads of \$25k.

Organisational Services	2017/18	2018/19	Change over Last Year	
	Budget	Draft Budget	Amount	%
Remuneration	1016	832	-184	-18%
Depreciation	120	120	0	0%
Operating Expenses	269	282	13	5%
Overheads	478	490	12	3%
Organisational Services Total	1883	1724	-159	-8%

Governance

Governance is budgeting for a decrease of \$21k due to the organisational review costs ceasing but sees an increase of \$20k for recruitment of possible directors and an allocation of resources attributable to the support of Council.

	2017/18	2018/19	Change over	
	Budget	Draft Budget	Last Year	%
			Amount	
Governance				
Governance	378	454	76	20%
Organisational Review	115	18	-97	-84%
Maori Engagement	30	30	0	0%
Governance Total	523	502	-21	-4%

International Events

There are no International Events planned for the financial year 2018/19.

4. 2018/19 Budget

The following tables provide a summary breakdown of 2018-19 financial and staffing resources over the work areas.

Activity	Expenses (\$000s)		% Revenue
Technology Operations & Commercial	\$4,739	43%	41%
Research &, Innovation	\$524	5%	5%
Outreach & Engagement	\$2,247	20%	20%
Policy & Ideas	\$936	8%	8%
International Engagement	\$394	4%	3%
Organisational Services	\$1,724	16%	15%
Governance	\$502	5%	4%
Total	\$11,066	100%	

Activity	People FTE	
Technology Operations & Commercial	13.70	38%
Research &, Innovation	3.74	10%
Outreach & Engagement	7.57	21%
Policy & Ideas	4.25	12%
International Engagement	0.32	1%
Organisational Services	6.03	17%
Governance	0.14	0%
Total	35.75	100%

5. Capital Expenditure Budgets

The proposed Technical capex budget is as follows:

Work item	Assets	Salaries
SRS application architecture implementation		\$100,000
.nz real time dashboard	\$10,000	\$40,000
Virtual server hosts hardware refresh	\$255,000	
Registrar Portal new features		\$40,000
RDAP R&D		\$11,000
WHOIS web frontend		\$11,000
Tape Backup hardware refresh	\$60,000	
EPP Extensions		\$22,000
Portal Rewrite R&D		\$5,500
.nz HTTPS Scan		\$5,000
Full web scan of .nz		\$10,000
Additional .nz DNS anycast site	\$20,000	
Consolidate .nz online presence	\$5,000	
Publicising technical research outputs	\$5,000	
Domain Analytics		\$TBD
Satellite and Mobile coverage added to Broadband Map		\$TBD
Broadband Map architecture change		\$25,000
Marketing lesser known services	\$10,000	
SUBTOTAL	\$365,000	\$269,500
Other Capital (Misc. HW/SW & Office furniture)	\$100,000	
Work Item TOTAL	\$465,000	\$269,500
TOTAL Capital Expenditure	\$734,500	

The proposed Non-technical capex budget is \$198,000 (c.f. current year \$185,000), made up of the following items:

Item	Amount
Shared Common areas (matching reception area)	\$25k
Telephone System	\$25k
Joan Meeting Room Assistant	\$8k
ICT Replacement	\$20k
Furniture & Fitting Wgtn (New staff)	\$10k
Diligent Boardbooks and associated ICT equipment	\$25k
Core ICT improvements	\$20k
Video Equipment	\$10k
Website development phase 3	\$30k
Membership System	\$25k

6. Other Matters

a) Reserves

The reserves have been calculated based on a recommendation from Deloitte, of which the details are in the new proposed Treasury Policy being presented at this meeting. The Deloitte recommendation was based upon a combination of the best of InternetNZ and NZRS's reserves and Liquidity policies, without being overly conservative.

Based on this recommendation the reserves will now include the Deferred Income, which on average last year equated to \$8.5m, the remaining reserves as would be required based on the proposed policy are to be maintained at a level of \$3,580,000 (2017/18: \$2,398,000). This is higher due to merger of NZRS with InternetNZ.

b) Community Funding

In the three-year projection 2018-2021 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 \$800k.

8. Three-year Profit & Loss projections

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

1. Growth in the .nz domain name space continues at 2% for the outyears.
2. The DNC fee remains constant with 2018/19
3. Inflation is set at 2% for the 2019-2021 years. The latest RBNZ figures have inflation well anchored at 2% in the long term¹
4. That InternetNZ (new) continues to operate the same scope of activities in 2019/20 and 2020/21. Significant changes in organisational scope would change these forecasts.

	2018/19 Draft Budget	2019/20 Draft Budget	2020/21 Draft Budget
Income	INZ	INZ	INZ
Registry Fees	10,815	11,031	11,252
Broadband Map	54	55	56
Domain Analytics	50	51	52
Year End Deferred Adjustment's	-48	-48	-48
Shared Service Recharge	227	232	236
Membership	15	15	15
Interest Received	342	349	356
Sundry Income *	48	98	49
Total Income	11,503	11,782	11,968
Less Direct Expenses			
DNC Fee	1,320	1,320	1,320
COS/Other IT	900	918	936

<https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Monetary%20policy%20statements/2018/mpsfeb18.pdf>

Total Direct Expenses	2,220	2,238	2,256
Less Other Expenses			
Communications	139	142	145
Community Engagement	348	513	362
Community Funding	800	900	1,000
Governance Costs	559	570	582
International Engagement/Travel	324	330	337
Issues	321	327	334
Office Costs	2,175	2,219	2,263
Staff Costs	4,180	4,110	4,192
Total Other Expenses	8,846	9,111	9,214
Total Expenses	11,066	11,349	11,471
Net Profit (Loss)	437	433	497

* National NetHui in 2019/20

A three-year Statement of Financial Position forecast, and Cash flow will be available after the year-end audit when both entities accounts will be merged.

Recommendations

1. That Council **receive** this paper and **agree** the strategy and high level composition of expenditure for the 2018/19 Budget.
2. That Council **approves** for 2018/19 an operational budget limit of \$11.066 million and a capital budget limit of \$734,500 for technical and \$198,000 for non-technical.

Appendix A

2017/18 EOY Forecast for InternetNZ only

The preliminary result for the year-ending 2017/18 is a surplus of \$652k, compared to a budgeted surplus of \$326k; an improvement of \$326k.

This positive variance is predominantly explained by two major movements:

1. An increase in dividend wash-up payment in July of \$65k,
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.

2017/18 EOY Forecast	2017/18 EOY Forecast	2017/18 Budget	Variance Amount	%
Internet New Zealand Incorporated				
Income	5,281	5,321	-40	-1%
Expenses				
Internet Issues	573	690	-117	-17%
Community Funding	700	700	0	0%
Community Engagement	719	827	-108	-13%
International Engagement	90	107	-17	-16%
Communications/Outreach	227	328	-101	-31%
Operations	1,216	1,296	-80	-6%
Overheads	470	478	-8	-2%
Governance & Membership	634	569	65	11%
Total Expenses \$000s	4,629	4,995	-366	-7%
Net Ordinary Income \$000s	652	326	326	100%
Operational Expenditure reconciliation				
Total Expenses \$000s	4,629	4,995		
Less subsidiaries reimbursement of shared services	-387	-387		
Total Expenses \$000s	4,242	4,608		