



# Budget 2022/23

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**PURPOSE:** To set out the strategy, summary and detail of the proposed 2022/23 Budget and seek Council Approval.

## Introduction

This paper sets out the strategy for the 2022/23 Budget and provides background information on key assumptions used in preparation. The purpose is to seek Council agreement to the budget and the paper should be read alongside the 2022/23 Plan.

## 1. Budget Strategy 2022/23

This proposed 2022/23 Budget is based on the following key points:

- Our prioritised work is directly linked with the revised Strategic Plan and the Annual Plan shared as part of these papers.
  - **Rei Ora: Our foundations**
    - People, Partnership, Membership and .nz
  - **Rei Kura: .nz for All of Aotearoa**
    - Goal: .nz is a good product
      - Complete the replacement of the .nz registry
      - .nz policy that responds to increasing concern on harm

- **Rei Kura: A Te Tiriti o Waitangi Centric Organisation**
  - Goal: We are a Te Tiriti o Waitangi centric organisation
    - Address systemic racism in our governance and membership structures.
    - Establish a range of Māori engagements and partnerships
- **Rei Kura: An Internet that Benefits**
  - Goal: Responses to harms
    - Convene and advocate for systemic responses to the challenge of mis- and dis-information in Aotearoa.
- **Rei Kura: An Internet for Everyone**
  - Goal: Digital equity and inclusion
    - Working through DECA towards digital equity
- The following **assumptions** are the foundations of our annual plan and are key to understanding our Budget for the year.
  - Internet Registry System (IRS)
    - We estimate that the project to replace the registry systems (planned to go live in August) will consume 50% of the capacity of the organisation during the first half of the year.
    - .nz domain name registrations are projected to grow by 2% over the 12 months this is in line with growth over the last 12 months and the effect of the price increase as long term domain renewals is still a factor in year on year growth
    - The cost of the new registry has been built in from August and costs are in line with the business case presented last year.
    - Direct costs of supporting .nz are based on running two sets of infrastructures during part of the year.

- Non .nz products
  - The plan and budget is based on refocusing on products that have a public good impact rather than commercial returns first.
  
- Staffing
  - 2021/22 has been a year of change for us and has seen a high level of turnover in staff. The budget has been prepared based on recruitment of staff to support our new proposed structure and annual plan therefore has a high level of costs in areas such as recruitment. There are also additional costs that we will incur as we move to the new structure.
  
- A Te Tiriti o Waitangi centric organisation
  - As we move the organisation forward toward our goal we have included a budget allowance to support work in developing relationships and working in partnership with Māori, and also embedding Te Ao Māori into our core work. This level of investment is new for Internet New Zealand.
  
- Funding - Grants and Partnerships
  - Investment in Community Funding planned at \$1m.
  - We continue to support organisations such as DECA, CCAN, with resources and financial support
  
- Investment Income
  - We have reduced the expected returns on our current portfolio based on the volatile nature of the markets and returns at present.

## 2. 2022/23 Budget: Summary (incl 2021/2022 year-end forecast)

This section shows the overall Budget proposal and includes comparisons to the current year's financial forecast and the Year 2 of the Budget we presented to Council last year.

	2021/22	2021/22	2022/23	2022/23
	YE Forecast	Budget Presented to Council in Dec	Budget	Budget reported for Y2 in March 2021
<b>Description</b>				
<b>Total Revenue</b>	<b>\$13,049,324</b>	<b>\$12,953,309</b>	<b>\$13,655,013</b>	<b>\$13,586,903</b>
<b>Direct Costs</b>	<b>\$2,777,721</b>	<b>\$2,697,279</b>	<b>\$3,522,327</b>	<b>\$3,286,555</b>
<b>Employment Costs</b>	<b>\$6,232,132</b>	<b>\$6,573,609</b>	<b>\$6,775,854</b>	<b>\$6,849,477</b>
<b>Operational Costs</b>	<b>\$1,906,178</b>	<b>\$1,965,436</b>	<b>\$1,531,607</b>	<b>\$1,426,931</b>
<b>Policy</b>	<b>\$223,582</b>	<b>\$215,000</b>	<b>\$95,000</b>	<b>\$71,000</b>
<b>Governance</b>	<b>\$335,349</b>	<b>\$344,820</b>	<b>\$370,993</b>	<b>\$321,800</b>
<b>International</b>	<b>-\$7,065</b>	<b>\$50,000</b>	<b>\$20,000</b>	<b>\$90,000</b>
<b>Communication</b>	<b>\$143,166</b>	<b>\$168,067</b>	<b>\$40,000</b>	<b>\$0</b>
<b>Commercial</b>	<b>\$67,036</b>	<b>\$52,817</b>	<b>\$30,000</b>	<b>\$0</b>
<b>Funding</b>	<b>\$1,058,831</b>	<b>\$1,050,015</b>	<b>\$1,062,000</b>	<b>\$1,000,000</b>
<b>Engagement</b>	<b>\$209,877</b>	<b>\$215,000</b>	<b>\$145,000</b>	<b>\$145,000</b>
<b>Membership</b>	<b>\$9,758</b>	<b>\$10,000</b>	<b>\$10,000</b>	<b>\$10,000</b>
<b>Depreciation/Write Off</b>	<b>\$279,786</b>	<b>\$308,688</b>	<b>\$297,429</b>	<b>\$377,305</b>
<b>Total Costs</b>	<b>\$13,236,350</b>	<b>\$13,650,731</b>	<b>\$13,900,210</b>	<b>\$13,578,068</b>
<b>Work Funding Pool</b>			<b>\$500,000</b>	<b>\$400,000</b>
<b>Investment activity</b>	<b>\$302,913</b>	<b>\$493,983</b>	<b>\$394,881</b>	<b>\$421,165</b>
<b>Surplus/Deficit</b>	<b>115,887</b>	<b>(203,439)</b>	<b>(350,316)</b>	<b>30,000</b>

You will note that based on our Forecast above we are currently expecting to finish 2021/22 with a surplus of \$115k (This is a \$300k improvement on the December Budget we presented). Of note is the underspend on Employment costs due mainly to staff turnover and delays in recruitment.

We would like to highlight some significant one-off costs in 2022/23 in the Financial information laid out above. Total one-off estimate \$340k to \$365k

- As previously mentioned staff turnover has been high at many levels within the organisation and as we build a new structure and recruit the cost in the budget

that could be considered once off for recruitment is \$145k - \$150k and structural changes \$85K - \$100k.

- We have also reviewed our work to align with the change in strategy to non commercial product developments and estimate costs of this change to be approximately \$80k- \$85k.
- The contribution that Investment income can make to our surplus/deficit has been reduced by \$30k.

You will also note that we have capped the spend on work this year beyond the registry replacement and available internal resources to an available financial pool of \$500k. The drawings on this pool will be prioritised to support our annual plan activities.

As we continue on our journey of strategic review with another milestone in June when the Council workshop on .nz for Aotearoa is due to take place and in August we will have passed the go live milestone on the registry replacement project - we believe that the budget should be reviewed at half year to ensure it aligns with the goals we are setting.

We have also included below some indicative numbers for future years (year 2 & 3) that is based on the following information

- Growth in .nz estimated at 1% (2% for next year only)
- The IRS costs - 12 months of costs
- We retain the work funding pool to align work in each annual plan.

	2021/22	2022/23	2023/24	2024/25
	YE Forecast	Budget	Year 2 Budget	Year 3 Budget
Description				
Total Revenue	\$13,049,324	\$13,655,013	\$13,774,674	\$13,912,415
Direct Costs	\$2,777,721	\$3,522,327	\$3,737,455	\$3,605,896
Employment Costs	\$6,232,132	\$6,775,854	\$6,576,658	\$6,869,769
Operational Costs	\$1,906,178	\$1,531,607	\$1,466,376	\$1,484,165
Policy	\$223,582	\$95,000	\$25,000	\$25,000
Governance	\$335,349	\$370,993	\$373,126	\$375,301
International	-\$7,065	\$20,000	\$50,000	\$50,000
Communication	\$143,166	\$40,000	\$40,000	\$40,000
Commercial	\$67,036	\$30,000	\$30,000	\$30,000
Funding	\$1,058,831	\$1,062,000	\$1,062,000	\$1,062,000
Engagement	\$209,877	\$145,000	\$150,000	\$85,000
Membership	\$9,758	\$10,000	\$10,200	\$10,404
Depreciation/Write Off	\$279,786	\$297,429	\$323,367	\$279,718
Total Costs	\$13,236,350	\$13,900,210	\$13,844,182	\$13,917,253
Work Funding Pool		\$500,000	\$500,000	\$500,000
Investment activity	\$302,913	\$394,881	\$470,016	\$470,016
Surplus/Deficit	115,887	(350,316)	(99,492)	(34,822)

Below we have also calculated the projected net equity position for each year. This will allow us to monitor our actual position to the targets set in the Finance and Investment Strategy.

Forecasts	2021/22	2022/23	2023/24	2024/25
Surplus/(deficit)	115,887	(350,316)	(99,492)	(34,822)
Forecast opening equity	10,171,189	10,287,076	9,936,760	9,837,268
Forecast closing equity	10,287,076	9,936,760	9,837,268	9,802,446
Reserves	3,723,420	3,723,420	3,723,420	3,723,420
Forecasted Equity Position after reserves	6,563,656	6,213,340	6,113,848	6,079,026
Target equity position	5,500,000	5,500,000	5,500,000	5,500,000
Equity lower limit	3,500,000	3,500,000	3,500,000	3,500,000

### 3. 2022/23 Budget: Capital Expenditure

The proposed Capex budget is set out below, showing divided in the following categories:

- .nz Investment
- Other capital activities to support the business

The Project Mimosa capital investment aligns with the Business case as presented last year.

The other significant investment is in -

- Replacing our CRM system that will be no longer supported in 2022
- Refresh of aged staff and office equipment.

Forecasts	2022/23
.nz Investment	
Mimosa	1,587,175
Infrastructure/Other	40,000
Other	
Staff computer Equipment	111,500
Web Development/CRM	100,000
Broadband Map	50,000
Misc	20,000
Total	1,908,675

### Recommendations

That Council **approve** for 2022/23 an operational expenditure budget limit of \$14m and capital expenditure of \$1.9m

That Council **note** the Revenue target of \$13.65m

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