

Budget 2023/24

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PURPOSE: To set out the strategy, summary, and detail of the proposed 2023/24 Budget for Council Approval

Introduction

This paper sets out the 2023/24 Budget, links to the strategic Goals/Work and provides background information on key assumptions used in preparation. The purpose is to seek Council agreement to the budget.

This paper should be read alongside the [2023/24 Plan](#).

1. Budget Strategy 2023/24

This proposed 2023/24 Budget was based on the following key points:

Our prioritised work that is directly linked with the Strategic Plan, and the tables that represent our focus areas over the next two years.

The following assumptions are the foundations of our annual plan and are key to understanding our Budget for the year.

- Home of .nz

With the successful implementation in 2022 of the new registry system, we will continue our strategy to invest and grow in this area by

- Investment in additional staff in areas of growth generation, key personnel planning and .nz policy.
- Increased expenditure to support longer-term marketing plans and registrar/market engagement. Note - revenue growth assumed at 2%.
- Capital investment in DNS refresh \$530k.
- Direct Costs for the replacement registry are approx. \$1.2m pa (an increase of \$700k from 22/23 based on full-year costs - go live date November 2022).

- Centering Te Tiriti o Waitangi

- As we continue on our journey to move the organisation forward toward

our goals, we have included a budget allowance to support work in

- developing relationships and working in partnership with Māori
- embedding Te Ao Māori into our core work and practices

- Systemic Racism review and Constitutional Changes
 - The work of these goals are closely linked and we believe to achieve the desired outcomes this will take a considerable investment for our current staff and also some additional support in areas such as
 - Programme management
 - Relationship/co-design - members, partners and other key stakeholders.
- New Zealand Internet community
 - Continue to use funding to support the community with a revised focus on partnerships
 - Diversify our membership
 - Focusing our resources on work on an Internet that Benefits the community.
 - Invest in tools to support this work.
- Mana Mahi Tahī
 - Fundamental to delivering this work is the change process we need to build a work culture that integrates continuous improvement into work processes through a series of experiments.
 - The budget includes investment in supporting these changes.

Please also note that we have not included any income from investments in the Budget but will continue to report the actual performance in quarterly financial reporting as a note.

2. 2022/23 Year-end forecast

This section shows the forecasted results for 2022/23 and includes comparisons to the current year's financial Budget and re forecast (pre investment returns).

	2022/23	2022/23	2022/23
	Budget Approved Apr 2022-2023	Reforecast presented Dec 2022-2023	Year-End Forecast 2022-2023
Description			
Total Revenue	\$13,655,012	\$13,767,847.00	\$13,775,511.00
DNCL	\$1,650,000	\$1,650,000	\$1,650,000
Direct Costs	\$1,872,327	\$1,637,999	\$1,627,794
Employment Costs	\$6,775,854	\$6,669,372	\$6,301,422
Operational Costs	\$1,531,609	\$1,776,854	\$1,564,511
Governance	\$370,993	\$353,205	\$338,174
International	\$20,000	\$31,500	\$35,549
Marketing	\$30,000	\$60,300	\$42,300
Funding	\$1,062,000	\$1,112,000	\$1,251,762
Engagement	\$210,000	\$355,000	\$170,704
Depreciation	\$297,428	\$286,932	\$279,562
Total Costs	\$13,820,211	\$13,933,162	\$13,261,777
One-offs - .nz Policy	\$80,000	\$80,000	\$65,000
One off - asset write/off	\$0	\$12,500	\$12,500
One off - Project Pool	\$500,000	\$165,000	\$100,000
Total One Offs	\$580,000	\$257,500	\$177,500.00
Surplus/Deficit	(745,199)	(422,815)	336,234

Our current forecast for the year end position at 31st March 2023 is that we will have a surplus of \$336k at net operating level before investment returns.

This is a \$760k improvement on the position presented in December. The main areas contributing to this include

- Employment costs \$350k lower - main areas of contribution
 - Additional staff turnover - some positions not replaced.
 - Delays in recruitment
 - Training and Development delays in timing
 - Lower spend on Contractors
- Operating Costs - \$200k lower across a large number of areas but main items
 - Rent annual month free not in the forecast
 - Lower spend on legal fees
 - Contract negotiations areas such as Website/Hosting
 - Meetings
 - External consultants
- Engagement/Funding reallocation and savings - \$150k
 - Increased Funding pool - forecast \$150k
 - Reduction in Project pool \$100k
 - Delayed spend in engagement on Systemic Racism Review/Constitution Change - \$100k
 - Lower spend in areas such as Māori Design Group, other engagements -\$100k

Note the current forecast for the Investment is for a positive return for the year of approx. \$158k.

Go to the next page 6, 2023/24 Budget.

3. 2023/24 Budget

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

This year, a number of budget scenarios were presented to Council for consideration based on the level of resource investment to support the agreed strategic goals. The purpose was to give a level of transparency between investment and outcomes/outputs over the next year. The scenario below was recommended based on balancing the goals we need to work on this year and the fiscal deficit this brings over a 5-year period.

	2022/23	2022/23	2023/24	2024/25
	Year-End Forecast	Budget presented to Council Dec	Budget	Forecast reported for Y2 in March 2022/23
Description				
Total Revenue	\$13,775,511	\$13,767,847	\$14,062,268	\$13,774,674
DNCL	\$1,650,000	\$1,650,000	\$1,635,000	\$1,650,000
Direct Costs	\$1,627,794	\$1,637,999	\$2,325,732	\$2,087,455
Employment Costs	\$6,301,422	\$6,669,372	\$6,227,569	\$6,576,658
Operational Costs	\$1,564,511	\$1,776,854	\$1,625,101	\$1,466,376
Governance	\$338,174	\$353,205	\$419,448	\$373,126
International	\$35,549	\$31,500	\$180,000	\$50,000
Marketing	\$42,300	\$60,300	\$165,000	\$30,000
Funding	\$1,251,762	\$1,112,000	\$1,202,000	\$1,062,000
Engagement	\$170,704	\$355,000	\$170,500	\$225,200
Depreciation	\$279,562	\$286,932	\$271,286	\$323,367
Total Costs	\$13,261,777	\$13,933,162	\$14,221,637	\$13,844,182
One-offs - Constitutional Review	\$65,000	\$80,000	\$211,919	\$0
One off - SRR Recommendation	\$12,500	\$12,500	\$311,919	\$0
One off - Risk & Security	\$100,000	\$165,000	\$209,529	\$0
Total One Offs	\$177,500.00	\$257,500	\$733,367	\$500,000
Surplus/Deficit	336,234	(422,815)	(892,736)	(569,508)

The main areas of difference between the scenarios presented were the variation in spending in

- Funding
- Engagement

This budget should be viewed over multiple years as is our new strategic priorities and we believe the budget preceding was the scenario that financially supports achieving the outcomes over 2023-2025 at a lower cost compared to the other scenarios. This also aligns with a positive return in outer years, reported later in this paper.

It is worth noting we predict we will be \$1.1m better than the original budget for 22/23 (based on the details above) and this surplus will be added to our opening equity for next year.

We would like to highlight some significant items in 2023/24 in the financial information laid out above.

- Revenue growth is based on 2% domain name growth (2022/23 estimated 2%)
- DNCL funding is budgeted at \$1.6m
- Direct costs include \$1.2m for the new InternetNZ Registry System (IRS).
- Two additional resources to support our work in systemic racism review and constitutional change over the next two years. The skills required to manage this significant piece of work include programme management, relationship building and co-design processes with the Internet community, and specifically the Māori community.
- Other staffing levels have been revised with
 - Additional investment in .nz
 - Reductions in Organisation performance team (Security)
 - Remuneration increase pool based on 5%
- As the international community is now meeting in person, the budget includes costs to support INZ re-engaging in these activities.
- Other costs
 - Legal - additional advice Constitutional change
 - Marketing - .nz Growth
 - Consultants - in three main areas
 - Constitutional change
 - Systemic Racism review
 - Security/Risk and IT

4. Future Year forecasting

We have also included below some indicative numbers for future years (year 2 to

	2023/24	2024/25	2025/26	2026/27	2027/28
	Scenario 2 Budget	Year 2 Forecast	Year 3 Forecast	Year 4 Forecast	Year 5 Forecast
Description					
Total Revenue	\$14,062,268	\$14,402,230	\$14,830,598	\$15,271,744	\$15,726,348
DNCL	\$1,635,000	\$1,650,000	\$1,650,000	\$1,650,000	\$1,650,000
Direct Costs	\$2,325,732	\$2,356,197	\$2,385,964	\$2,394,807	\$2,418,538
Employment Costs	\$6,227,569	\$6,362,501	\$6,544,037	\$6,779,677	\$6,995,477
Operational Costs	\$1,625,101	\$1,666,462	\$1,768,734	\$1,823,370	\$1,880,487
Governance	\$419,448	\$419,448	\$448,015	\$448,015	\$455,444
International	\$180,000	\$183,600	\$187,272	\$191,017	\$194,838
Marketing	\$165,000	\$99,750	\$104,738	\$109,974	\$115,473
Funding	\$1,202,000	\$1,302,000	\$1,402,000	\$1,502,000	\$1,602,000
Engagement	\$170,500	\$173,910	\$177,388	\$180,936	\$184,555
Depreciation	\$271,286	\$274,780	\$244,445	\$231,798	\$150,959
Total Costs	\$14,221,637	\$14,488,648	\$14,912,593	\$15,311,595	\$15,647,771
One-offs - Constitutional Review	\$211,919	\$186,919	\$0	\$0	\$0
One off - SRR Recommendation	\$311,919	\$311,919	\$0	\$0	\$0
One off - Risk & Security	\$209,529	\$0	\$0	\$0	\$0
Total One Offs	\$733,367	\$498,838	\$0	\$0	\$0
Surplus/Deficit	(892,736)	(585,256)	(81,995)	(39,851)	78,577
Equity Pre-Investments					
Forecasts	2023/24	2024/25	2025/26	2026/27	2027/28
Surplus/(deficit)	(892,736)	(585,256)	(81,995)	(39,851)	78,577
Forecast opening equity	10,623,310	9,730,574	9,145,318	9,063,323	9,023,472
Forecast closing equity	9,730,574	9,145,318	9,063,323	9,023,472	9,102,049
Reserves	3,723,420	3,723,420	3,723,420	3,723,420	3,723,420

Forecasted Equity Position after reserves	6,007,154	5,421,898	5,339,903	5,300,052	5,378,629
Target equity position	5,500,000	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	3,500,000

Some key assumptions

- Growth in .nz estimated at 3% in outer years
- \$100k increase each year in funding/partnerships
- Salary review based on 3% in outer years
- Substantive work on Constitution and Systematic review completed 24/25
- Any returns on investments not included.

4. 2023/23 Budget: Capital Expenditure

The proposed Capex budget below is divided into the following categories:

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

	2023/24
.nz Investment - DNS	530,000
Infrastructure/Other	60,000
Staff computer Equipment	61,300
Web Development/CRM	150,000
Broadband Map	25,000
Misc	21,500
Total	\$847,800

Council Decision

Council approved the 2023/24 operational expenditure budget limit of \$14.96m and capital expenditure of \$.85m

And noted the Revenue target of \$14.06m at the March Council meeting.