

# Budget 2023/24

---

**AUTHOR:** Tumu Whakarae (CE), Vivien Maidaborn

**PURPOSE:** To set out the strategy, summary and detail of the proposed 2023/24 Budget and seek 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 is based on the following key points:

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

Goals
<b>Goal 1</b> - To establish the Mana Mahi Tahī approach to INZ work and culture over the next two years. This will entail combining, agile, self managing and Te Tiriti centric work processes and cultural forms.
<b>Goal 2</b> - Make changes within InternetNZ toward ending racism and becoming Te Tiriti o Waitangi centric
<b>Goal 3</b> - Devolving power to Māori Whānau, Hapū, Iwi, and Māori Tech Communities.
<b>Goal 4</b> - Design and implement an approach to collaboration, and partnering

<b>Goals</b>
toward an internet that benefits everyone.
<b>Goal 5</b> - Diversify the membership base
<b>Goal 6</b> - Grow in volume of registrars in our channel .Revenue growth year on year
<b>Goal 7</b> - .nz rules are high quality, fit for purpose toward an internet that benefits and are clear for our stakeholders to interpret and for DNCL to enforce.
<b>Goal 8</b> - To be active in environmental scanning and technology developments that inform business decisions for .nz and related registry products
<b>Goal 9</b> - Regional ccTLD collaboration and support, including advocating for ccTLD sovereignty for Pacific islands
<b>Goal 10</b> - Modernise the InternetNZ Constitution
<b>Goal 11</b> - Mana Whakahaere processes are developed to achieve codesign with Māori for SRR recommendations 5&6 with Te Komiti Whakauru Māori (TKWM) and external parties
<b>Goal 12</b> - Te Tiriti o Waitangi centred decision making and application of matauranga Māori is integrated across InternetNZ Group
<b>Goal 13</b> - Maintaining Domain Name Commission Limited

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

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 year, we have included several scenarios for review based on the level of resource investment to support the agreed strategic goals. The purpose is to give a level of transparency between investment and outcomes/outputs over the next year. We recommend Scenario 2 based on balancing the goals we need to work on this year and the fiscal deficit this brings over a 5 year period. Scenario 1 provides an option which grows investment in the community much quicker than Scenario 2 with the consequent impact on the outlying years.

	2023/24	2023/24	2023/24
	Scenario 1 Budget	Scenario 2 Budget	Scenario 3 Budget
<b>Description</b>			
<b>Total Revenue</b>	<b>\$14,062,268</b>	<b>\$14,062,268</b>	<b>\$14,062,268</b>
<b>DNCL</b>	\$1,635,000	\$1,635,000	\$1,635,000
<b>Direct Costs</b>	\$2,325,732	\$2,325,732	\$2,325,732
<b>Employment Costs</b>	\$6,227,569	\$6,227,569	\$6,137,666
<b>Operational Costs</b>	\$1,683,169	\$1,625,101	\$1,612,101
<b>Governance</b>	\$419,448	\$419,448	\$419,448
<b>International</b>	\$180,000	\$180,000	\$100,000
<b>Marketing</b>	\$165,000	\$165,000	\$125,000
<b>Funding</b>	\$1,402,000	\$1,202,000	\$1,202,000
<b>Engagement</b>	\$248,500	\$170,500	\$158,000
<b>Depreciation</b>	\$271,286	\$271,286	\$271,286
<b>Total Costs</b>	<b>\$14,557,704</b>	<b>\$14,221,637</b>	<b>\$13,986,234</b>
<b>One-offs - Constitutional Review</b>	\$211,919	\$211,919	\$211,919
<b>One off - SRR Recommendation</b>	\$311,919	\$311,919	\$311,919
<b>One off - Risk &amp; Security</b>	\$209,529	\$209,529	\$209,529
<b>Total One Offs</b>	<b>\$733,367</b>	<b>\$733,367</b>	<b>\$733,367</b>
<b>Surplus/Deficit</b>	<b>(1,228,803)</b>	<b>(892,736)</b>	<b>(657,333)</b>

The main areas of difference in the scenarios above is the variation in spend in

- Funding
- Engagement

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



<b>Forecasted Equity Position after reserves</b>	<b>6,007,154</b>	<b>5,421,898</b>	<b>5,339,903</b>	<b>5,300,052</b>	<b>5,378,629</b>
<b>Target equity position</b>	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000
<b>Equity lower limit</b>	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
<b>Total</b>	<b>\$847,800</b>

#### Recommendations

That Council **approve** for 2023/24 an operational expenditure budget limit of **\$14.96m** and capital expenditure of **\$.85m**

That Council **note** the Revenue target of **\$14.06m**