
Budget Paper 2019/20

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Purpose of paper: To set out the strategy, summary and detail of the proposed 2019/20 Budget and seek Council Approval.

Introduction

This paper sets out the strategy for the 2019/20 Budget, the background information regarding that budget, and proposes for Council's agreement a budget along with associated notes. It should be read alongside the 2019/20 Plan.

1. Budget Strategy 2019/20

This proposed 2019/20 Budget is based on the following key points:

- An assumption of 3% increase in.nz domain name registrations.
- Income from new products starting to come on stream during the financial year.
- Resources and Investment focused on Goal related projects as detailed in the Plan.
- Investing new resources in security and marketing, and being clearer about the resources devoted to product development.
- Careful balancing of operational resources in maintaining our core work as we focus on the new strategic goal projects.
- Building capability across the organisation to support the new goals-focused projects approach and to allow us to work more effectively.
- Maintaining cost controls and taking a prudent approach to assessing our operating model & reducing costs where possible.

In this business year we have a clear strategic framework and well defined goals for the next 12 to 18 months based on all the work completed in 2018/19. This means that we are well placed to launch into the new year with a backlog of work to achieve our purpose.

To agree all our goals the team has come together and worked through the priority and high level resourcing required and while there is still some work to be done in a planning sense, we believe we are in a good position to move the organisation's work to a new direction.

In closing, we note that this Budget was finalised for Council consideration less than a week after the Christchurch mosques terrorist attack on the Muslim community of 15 March 2019. The implications of those attacks and the way the country will respond in the coming months suggest unknown changes to our operating environment, some of which may have cost implications. We will bring

these to Council's attention as they emerge, starting with an update at the May 2019 meeting.

2. 2019/20 Budget: Summary (incl 2018/19 year-end forecast)

This section shows the overall Budget proposal and includes comparisons to current year financial forecast and the initial draft Budget discussed in February. The subsequent section shows detail to support key expense lines and changes year to year.

The Financial information laid out below gives some clarity to the Council on:

- The slow growth rate in .nz domain name registrations and the effect on revenue
- Where our baseline costs are trending
- The investment and return on non-.nz products as we build new revenue streams
- The investment in new and enhanced capability to support our changing environment
- Clarity on one off costs that arise in this financial year.

In particular we draw attention to the fact that compared with the February budget draft, the forecast level of domain name registrations at 31 March is lower than anticipated. This means that the baseline of domain name registration revenue is lower than anticipated as at April 1 and that revenue in 2019/20 is also affected negatively.

The plan for the coming year accounts for this by setting a goal of more rapid growth, and that is incorporated in the assumptions for the budget below, but even achieving that level of growth will lead to lower income due to the lower starting point in terms of register size. The impact is approximately \$300k.

Overall, for 2018/19, the year-end forecast is for an operating surplus of \$523k, which is \$184k ahead of the budgeted surplus of \$337k.

For 2019/20 and out-years, the following items are drawn to your attention.

The DNCL Management Fee is incorporated in the budget as an expense line. This amounts to just over \$1.3m in 2019/20.

Depreciation is now split to align with the revenue generating products/function and is therefore split over three areas, this will allow us to report on product costs and profitability.

Depreciation/Amortisation on .nz developments

Depreciation/Amortisation on new products

Depreciation on operational items

We have included in the Budget a line called “Targeted Cost Efficiencies” (at the bottom of the table over the page). This amount (\$300k) represents realistic savings we believe can be made through evolution of our operating model in various parts of the organisation (tying back to the last bullet point in the Budget Strategy section above).

This budget overall shows a \$130k improvement on the expected year-end deficit compared with the February draft.

The table is overleaf.

Summary Level of Surplus/Deficit

	Forecast	Budget	February Draft	Final Proposed		
	2018/19	2018/19	2019/20	2019/20	Year 2	Year 3
Description					2020/21	2021/22
.nz registrations	\$10,602,000	\$10,768,000	\$11,150,000	\$10,820,000	\$11,144,600	\$11,478,938
other income (e.g. Sponsorship, recharge)	\$300,000	\$310,000	\$320,000	\$324,700	\$331,194	\$337,818
Total Revenue	\$10,902,000	\$11,078,000	\$11,470,000	\$11,144,700	\$11,475,794	\$11,816,756
DNCL Fee	\$1,320,000	\$1,320,000	\$1,320,000	\$1,340,000	\$1,340,000	\$1,340,000
.nz direct Cost of Sales	\$619,876	\$633,876	\$655,000	\$655,768	\$655,768	\$655,768
Depreciation/Amortisation (Change to Accounting)	\$0	\$0	\$0	\$167,056	\$207,056	\$237,056
Employment	\$4,476,658	\$4,486,323	\$4,744,000	\$4,507,987.44	\$4,643,227	\$4,777,524
Operational	\$1,496,599	\$1,788,105	\$1,585,000	\$1,736,222	\$1,736,222	\$1,736,222
Policy	\$89,344	\$198,000	\$145,000	\$65,000	\$65,000	\$65,000
Governance	\$329,600	\$292,106	\$340,000	\$326,036	\$326,036	\$326,036
International	\$285,730	\$239,000	\$230,000	\$385,767	\$385,767	\$385,767
Communication	\$66,000	\$81,000	\$135,000	\$205,000	\$205,000	\$205,000
Funding	\$890,000	\$895,000	\$900,000	\$895,000	\$895,000	\$895,000
Engagement	\$165,061	\$196,000	\$275,000	\$260,000	\$260,000	\$260,000
Membership	\$35,184	\$27,500	\$30,000	\$5,000	\$5,000	\$5,000
Depreciation	\$672,898	\$678,284	\$738,000	\$401,640	\$426,640	\$436,640
Investment activity	-\$450,752	-\$576,000	-\$550,000	-\$580,113	-\$580,113	-\$580,113
Baseline expenditure	\$9,996,198	\$10,259,194	\$10,547,000	\$10,370,364	\$10,570,603	\$10,744,900
Surplus/Deficit pre New Products/New Capacity/One Offs	\$905,802	\$818,806	\$923,000	\$774,336	\$905,191	\$1,071,856
Non .nz Revenue	-\$41,736	-\$35,000	-\$325,000	-\$275,000	-\$750,000	-\$1,275,000
Non .nz Direct Costs	\$99,584	\$102,416	\$421,000	\$337,963	\$500,000	\$600,000
Innovation Pipeline /Design Sprints			\$75,000	\$75,000	\$50,000	\$50,000

Summary Level of Surplus/Deficit

	Forecast	Budget	February Draft	Final Proposed	Year 2	Year 3
Non .nz Depreciation				\$52,738	\$125,000	\$145,000
New Capacity - Commercial			\$155,000	\$140,374	\$130,000	\$135,000
Addition Legal cost - new agreements etc			\$30,000	\$30,000	\$15,000	\$15,000
New Capacity Tech Services (Dev/Testing)			\$110,000	\$100,000	\$100,000	\$100,000
New product Marketing			\$50,000	\$50,000	\$50,000	\$50,000
Total Non .nz Products	-\$57,848	-\$67,416	-\$516,000	-\$511,074	-\$220,000	\$180,000
Surplus/(deficit) after Non .nz Products	\$847,954	\$751,390	\$407,000	\$263,262	\$685,191	\$1,251,856
Marketing	\$37,263	\$104,000	\$200,000	\$205,000	\$200,000	\$205,000
New Capacity - Cyber security	\$60,000	\$60,000	\$450,000	\$434,512	\$400,000	\$405,000
New Capacity Tech Services			\$110,000	\$106,630	\$90,000	\$95,000
New Capacity - Tech Research			\$70,000	\$70,000	\$70,000	\$70,000
New Capacity - O&E (Comms and Engagement)		\$0	\$107,000	\$145,802	\$140,000	\$145,000
Total New Products/Capacity	\$97,263	\$164,000	\$937,000	\$961,944	\$900,000	\$920,000
Surplus/(deficit) after New Products/Capacity	\$750,691	\$587,390	-\$530,000	-\$698,682	-\$214,809	\$331,856
One offs - .nz Policy Review	\$78,000	\$100,000	\$300,000	\$301,800		
One offs - branding	\$150,000	\$150,000	\$100,000	\$100,000		
Total One-Off Expenditure	\$228,000	\$250,000	\$400,000	\$401,800	\$0	\$0
Surplus/(deficit) after New Products/Capacity/One - Off	\$522,691	\$337,390	-\$930,000	-\$1,100,482	-\$214,809	\$331,856
Targeted Cost Efficiencies				\$300,000	\$300,000	\$300,000
Surplus/Deficit	\$522,691	\$337,390	-\$930,000	-\$800,482	\$85,191	\$631,856
Total Income	\$11,394,488	\$11,689,000	\$12,345,000	\$11,999,813	\$12,805,907	\$13,671,868
Total expenditure	\$10,871,797	\$11,351,610	\$13,275,000	\$12,800,295	\$12,720,716	\$13,040,013

3. 2019/20 Budget: Breakdown by Goal/Project

As detailed in the 2019/20 Plan paper, our work for the next 12-18 months is focused on the 5 agreed Goals. These goals will be the priority for the organisation and as such will receive a large amount of the budget's investment.

Detailed below is some of the larger items that will support us to achieve the Goal Outcomes by Projects.

Please note the financial detail here does not include the cost of current staff or operational costs but is direct costs this financial year to support the agreed workplan.

Additional Budget Allocation to Goal 1	\$ Opex	\$ Capex
<i>Marketing Spend on .nz</i>	\$205,000	
<i>Web Presence Project - incl .nz website</i>	\$50,000	\$250,000
<i>Registry Front End replacement</i>	\$10,000	\$82,000
Total Goal 1	\$265,000	\$332,000

Additional Budget Allocation to Goal 2	\$ Opex	\$ Capex
<i>.nz Policy review</i>	\$301,000	
<i>Security Investment - Capability and assessments</i>	\$434,512	
Total Goal 2	\$735,512	\$0

Additional Budget Allocation to Goal 3	\$ Opex	\$ Capex
<i>Innovation Pipeline</i>	\$75,000	\$30,000
<i>New product 1 (Deficit in Yr 1)</i>	\$110,701	\$190,000
<i>New Product 2 (Deficit in Yr 1)</i>	\$5,000	\$170,000
<i>Marketing / Legal for New Products</i>	\$80,000	
<i>Additional Technical Resources</i>	\$100,000	
<i>New Product Manager</i>	\$140,374	
Total Goal 3	\$511,075	\$390,000

Additional Budget Allocation to Goal 4	\$ Opex	\$ Capex
<i>All cost assumed with current capability</i>		
Total Goal 4	\$0	\$0

Additional Budget Allocation to Goal 5	\$ Opex	\$ Capex
<i>All cost assumed with current capability</i>		
Total Goal 5	\$0	\$0

Additional Capacity / BAU (Incl Positions not included Above)	\$ Opex	\$ Capex
<i>Office Refurbishment</i>	\$20,000	\$350,000
<i>Project Support resourcing</i>	\$100,000	
<i>Hadoop Cluster replacement</i>	\$25,000	\$200,000
<i>Broadband Map redevelopment</i>	\$10,000	\$150,000
<i>Te Reo Maori Engagement and Translation</i>	\$100,000	
<i>New Capability Tech Services</i>	\$106,630	
<i>New Capability Data Scientist</i>	\$70,000	
<i>New Capacity Outreach and Engagement</i>	\$145,802	
Total Capacity /BAU Projects	\$577,432	\$700,000

4. Capital Expenditure Budget

The proposed capex budget is set out below. This is showing cash and capitalised salaries, divided into three categories:

- Baseline – to support business as usual operations.
- New product development – expenses to develop new products.
- Capacity – generally, one off capitalised expenditure that allow us to change our operating model or are irregular.

The table is overleaf.

Work Item	\$ cash	Capitalised Salaries
Hadoop Cluster Replacement	\$200,000	
SRS Backup implementation	\$60,000	\$8,000
EPP replacement Project		\$64,000
Hardware Replacement - .nz	\$30,000	\$4,000
New/Replacement Laptops/Monitors/Phone	\$64,428	
Registrar Portal Update		\$40,000
SRS Frontend replacement		\$18,000
Bastian Hosts (secure access points / DMZ)	\$10,000	\$5,000
RDAP - Registration Daya Access Protocol		\$25,000
Centralised Logging		\$28,000
Other Project	\$17,232	\$33,000
Total by Category	\$381,660	\$225,000
Total Baseline Investment	\$606,660	
New Product Development - Product 1	\$194,000	
New Product Development - Product 2	\$170,000	
BBMap Development	\$105,000	\$45,000
Total by Category	\$469,000	\$45,000
Total Non .nz product Development Investment	\$514,000	
Website Presence project	\$250,000	
Fitout	\$350,000	
Total by Category	\$600,000	\$0
Total Capacity Investment	\$600,000	
Total by Category	\$1,450,660	\$270,000
Total Capital Investment	\$1,720,660	

Recommendations:

1. THAT Council **receive** this paper and **agree** the strategy and high level composition of expenditure for the 2019/20 Budget.
2. THAT Council **approves** for 2019/20 an operational expenditure limit of \$12.8m and capital expenditure limit of \$1.73m.
3. THAT Council **note** the Revenue target of \$12m, incorporating new product revenue of \$275k in 2019/20.

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