

Budget 2020/21

ITEM NO:	2.2
AUTHOR:	Jordan Carter, Chief Executive and Catherine Fenwick, Organisational Services Director.
PURPOSE:	To set out the strategy, summary and detail of the proposed 2020/21 Budget and seek Council Approval.

Introduction

This paper sets out the strategy for 2020/21 Budget and provides background information on key assumptions used in preparation. The purpose is to gain Council agreement to the budget and the paper should be read alongside the 2020-22 Goals and Measures

1. Budget Strategy 2020/21

This proposed 2020/21 Budget is based on the following key points:

- .nz domain name registrations projection are for flat growth in the next 12 months. There are two underlying assumptions that we have used based on historical information:
 - Renewal levels 83.9%
 - Average 26,000 new creates each quarter
- The price review is built in from June 1 and assumes that this has no direct effect on the flat growth in registrations.
- Increase in capability to support .nz systems based on new operating structure implemented in Oct 2019 (some positions only coming online in 2020/21).
- Income from non .nz products to reach \$590,000 - major part of this from the product already launched – Defenz.
- Investment in Community Funding has increased to over \$1m.
- Investment in Security position continues with step up in the year in resourcing and tools.
- Investment Income is based on maintaining a current portfolio but returns on investment are, given COVID-19 issues, looking more like 2% to 2.5%.
- A number of one-off projects such as the last phases of the .nz policy review and the digital inclusion evaluation work have continued investment in 2020/21.

- All expenditure on the .nz registry replacement project outside of the RFP process is not included in this budget (the project will be funded from reserves as required).

As the budget was being prepared, the COVID-19 situation has developed and become increasingly significant. We have taken some account of this in the Budget but there will probably be more changes needed as the year progresses.

The budget for the year is based on the Plan, including the Strategic Goals, as set out in item 2.1. There are a number of projects, both new and continuing, that support these goals and work will only be committed based on their contribution to achieving these goals and our ability to resource over the next 24 months. In 2019/20 we introduced a new Project Portfolio framework that has helped the organisation priorities projects and investment that have direct contribution to the strategic framework.

2. 2020/21 Budget: Summary (incl 2019/2020 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. This is for clarity and transparency, to show how our plans have evolved since last year.

The subsequent section shows detail to support key expense lines and changes year to year. The Financial information laid out below gives clarity to the Council on:

- Year on Year revenues for the .nz domain name registrations with effect of flat growth and the price review
- A view our baseline costs and trends
- The continued investment in non .nz products
- Investment in capability with a focus to support .nz and security practice
- Highlighting significant one-off costs

In particular we draw your attention to

- The forecast year end outcome for 2019/20 is now for a \$1,360,706 deficit (this includes a \$433,353 forecast hit from our investment portfolio based on movement since February 29th and the DNCL funds described below). As you will understand we do not have certainly over the year end position at present.
- The forecast for this year now has an operating cost increase of \$500,000 as we top up reserves for DNCL (this was approved earlier in the year and is in light of the erosion of DNCL's reserves, accumulated over the years, due to litigation costs over the last two years. This was earlier expected to be a capital transaction. Since it is funding operational activity by DNCL, it makes sense for it to be recognised in the operating accounts.).

- The budget for 2020/21 is showing a \$630,161 deficit (this includes a much reduced spend on international travel and large reductions in the returns on our investment portfolio based on a 2%-2.5% return estimate, arising from the COVID-19 pandemic impact on the global and local economy).
- There are a number of one-off costs that we are investing in, to support our strategic goals. These include (see section in chart below)
 - .nz policy review and its implementation over the next year.
 - Digital inclusion evaluation project.

Description	2019/20		2020/21	
	Budget	Forecast	Budget	(Last Yr)
.nz registrations	10,820,000	10,743,777	11,454,236	11,144,600
other income (e.g. Sponsorship, recharge)	324,700	339,235	399,002	331,194
Total Revenue	\$11,144,700	\$11,083,012	\$11,853,238	\$11,475,794
DNCL Fee	1,340,000	1,340,004	1,449,699	1,340,000
.nz direct Cost of Sales	655,768	626,214	659,628	655,768
Depreciation/Amortisation .nz	99,276	80,462	35,519	139,276
Employment	4,635,359	4,874,841	5,004,070	4,774,419
Operational	1,818,325	1,837,079	1,902,457	1,818,325
Policy	65,000	48,056	20,000	65,000
Governance	326,036	304,559	308,682	326,036
International	385,767	279,500	148,000	385,767
Communication	130,000	59,037	70,000	130,000
Funding	895,000	855,000	1,000,000	895,000
Engagement	260,000	253,251	225,000	260,000
Membership	5,000	12,166	10,000	5,000
Deprecaition	401,640	327,432	285,534	426,640
Baseline expenditure	\$11,017,170	\$10,897,601	\$11,118,590	\$11,221,231
Surplus/Deficit pre New/One Offs	\$127,530	\$185,411	\$734,648	\$254,563
Non .nz Revenue	(275,000)	(71,400)	(590,040)	(750,000)
Non .nz Direct Costs	337,963	108,333	268,900	500,000
Non .nz Depreciation	52,738	55,106	172,843	125,000
Operating Costs	155,000	67,038	140,000	115,000
New Capacity - Commercial	140,374	109,281	192,891	130,000
New Capacity Product Ops Lead	100,000	-	145,032	100,000
Total Non .nz Products	\$511,074	\$268,358	\$329,626	\$220,000
Surplus/(deficit) after Non .nz Products	(\$383,545)	(\$82,947)	\$405,022	\$34,563
Marketing	205,000	160,000	10,000	200,000
New Capacity - Cyber security	292,818	117,294	340,561	400,000
New Capacity - Internal IT	-	-	105,974	-
New Capacity IT Ops	106,630	103,601	266,059	90,000
New Capacity - Tech Research	70,000	69,012	70,963	70,000
New Capacity - Engagement	145,802	126,821	164,983	140,000
Total New Capacity	\$820,251	\$576,728	\$958,540	\$900,000
Surplus/(deficit) after New Products/Capacity	(\$1,203,796)	(\$659,675)	(\$553,518)	(\$865,437)
One offs - .nz Policy Review and Implementation	301,800	272,700	301,397	-
One offs - Digital Inclusion Evaluation Project	75,000	157,500	144,000	-
One offs - branding	100,000	40,000	-	-
Total One Off Expenditure	\$476,800	\$470,200	\$445,397	\$0
Surplus/(deficit) after New Products/Capacity/One - Off	(\$1,680,596)	(\$1,129,875)	(\$998,914)	(\$865,437)
Targeted Cost Efficiencies	\$300,000	\$0	\$0	\$300,000
Surplus/Deficit	(\$1,380,596)	(\$1,129,875)	(\$998,914)	(\$565,437)
Investment activity	\$580,113	\$269,169	\$368,753	\$580,113
DNCL Reserves top up		(\$500,000)		
Surplus/Deficit (After Top up)	(\$800,483)	(\$1,360,706)	(\$630,161)	\$14,675
Total Income	\$11,999,813	\$11,423,581	\$12,812,031	\$12,805,907
Total expenditure	\$12,800,296	\$12,784,287	\$13,442,192	\$12,791,231

Below we have also included a revised 3 year projection based on current information. The biggest issue we face in future years is the continued declines in .nz registrations, which is why we have included the deep thinking project in Goal 3 in the plan for this year – to see if we can think through ways to turn this around.

While the revenue in non .nz products is projected to grow over this period, the overall profitability will be negatively affected as the new products have a lower overall profit projection than .nz registrations.

Please note we have not made any assumptions on the effect of the registry replacement project in these figures.

The overall picture shows the need for ongoing restraint in expenditure, and continued efforts to make our operations as efficient as possible.

Description	3 Year			
	2019/20	2020/21	2021/22	2022/23
	Forecast	Budget	Year 2	Year 3
Total Revenue	\$11,154,412	\$12,443,278	\$13,135,598	\$12,873,008
Direct Costs	2,210,119	2,586,589	2,697,025	2,835,070
Employments	5,400,850	6,290,533	6,479,249	6,673,627
Operational Costs	2,064,117	2,052,457	2,012,457	2,012,457
Policy	48,056	20,000	20,000	20,000
Governance	304,559	308,682	308,682	308,682
International	279,500	148,000	298,000	298,000
Communication	59,037	70,000	70,000	70,000
Funding	855,000	1,000,000	1,000,000	1,000,000
Engagement	253,251	225,000	225,000	225,000
Membership	12,166	10,000	10,000	10,000
Depreciation	327,432	285,534	285,534	285,534
Total Costs	\$11,814,087	\$12,996,796	\$13,405,948	\$13,738,370
Total One Off	\$470,200	\$445,397	\$0	\$0
Investment activity	\$269,169	\$368,753	\$368,753	\$368,753
DNCL Reserves	\$500,000	\$0	\$0	\$0
Surplus/Deficit	(\$1,360,706)	(\$630,161)	\$98,404	(\$496,609)

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 new Finance and Investment Strategy.

	2020/21 (plan)	2019/20 (forecast)
Surplus/(deficit)	(630,161)	(1,360,706)
Forecast opening equity	9,640,334	11,001,040
Forecast closing equity	9,010,173	9,640,334
Reserves	3,400,000	3,200,000
Forecasted Equity Position after reserves	5,610,173	6,440,334
Target Equity Position	5,500,000	5,500,000
Equity Lower Limit	3,500,000	3,500,000

Compliance with strategy constraints: This table demonstrates that the budget plan is consistent with the requirements of the Finance and Investment Strategy. It shows closing equity that exceeds the target level and that is well clear of the specified lower limit.

3. 2020/21 Budget: Breakdown by Goal/Project

As detailed in item 2.1 our work is focused on the updated Strategic Goals for the next 24 months. The 5 Goals continue the work we started in 2019/20 and also bring more focus to our changing environment. The work that contributes most to these goals will get priority and most of the larger items are listed below.

All work will now be validated through the Project Portfolio Framework before we approve budget and resources, and this will include review based on the objectives and benefits of the work to support our strategic goals.

Please note Opex in the table below does not include staff costs but it is based on direct costs (only exception is the additional capacity section).

Budget Allocation to Goal 1 (Internet for Good)	\$ Opex	\$ Capex
<i>Internet for Good what would it be like, and how it would be different to what we have today (publications, engagement, events and research)</i>	50,000	-
<i>NetHui 2020</i>	200,000	-
Total Goal 1	\$ 250,000	-
Budget Allocation to Goal 2 (Digital Inclusion)	\$ Opex	\$ Capex
<i>Online home for Digital Inclusion</i>	14,063	75,000
<i>Hosting an expert advisory capability to build a toolkit for evaluating digital inclusion initiatives.</i>	144,000	-
Total Goal 2	\$ 158,063	\$ 75,000
Budget Allocation to Goal 3 (Grow .nz)	\$ Opex	\$ Capex
<i>Marketing for term and retention increases (Marketing Campaign - .nz Channel Cofund + Marketing Direct Campaign - .nz Potential Registrants)</i>	50,000	-
<i>.nz Policy Review</i>	301,397	-
<i>Registry Replacement Project (To RFP stage)</i>	-	448,447
<i>New website to be launched (Final phase)</i>	46,875	46,500
Total Goal 3	\$ 398,272	\$494,947
Budget Allocation to Goal 4 (New products)	\$ Opex	\$ Capex
<i>New product development</i>	-	282,165
<i>Innovation Pipeline</i>	40,000	-
<i>DNS Firewall expansion</i>	-	50,000
<i>Broadband Map v2.0 Roadmap</i>	-	26,000
Total Goal 4	\$ 40,000	\$358,165
Budget Allocation to Goal 5 (High performing)	\$ Opex	\$ Capex
<i>Project envelope to support goal for a High performing team and a great place to work,</i>	150,000	-
<i>Security and Risk Framework Development</i>	104,000	-
<i>Employee engagement / feedback tool</i>	11,200	-
<i>Office refit</i>	29,107	575,000
Total Goal 5	\$ 294,307	\$575,000

4. 2020/21 Budget: Capital Expenditure

The proposed capex budget is set out below. This is showing cash and capitalised salaries divided in the following categories:

- Baseline
- Product Development
- Capacity

CAPEX PLAN 2020/21		
Work Item	\$ cash	Capitalised Salaries
Registry Replacement - RFP	\$350,000	\$98,447
Website Presence project	\$46,500	
Digital Inclusion OnLine	\$75,000	
Security Event management	\$20,000	
RiskCompliance Software	\$30,000	
Total by Category	\$521,500	\$98,447
Total Baseline Investment	\$619,947	
Broadband Map v2.0 Roadmap		\$26,000
Centralised Logging .nz	\$28,000	
Registry Lock deploy	\$50,000	
DNS Firewall - extra resilience	\$50,000	
prodcut Development		\$232,165
Total by Category	\$128,000	\$258,165
Investment	\$386,165	
Premises Refit Auckland	\$50,000	
Premises Hard Fitout	\$400,000	
Premises Soft Fitout	\$125,000	
Staff IT requirements	\$50,000	
HubSpot integration into new	\$50,000	
Total by Category	\$675,000	\$0
Total Capacity Investment	\$675,000	
Total by Category	\$1,324,500	\$356,612
Total Capital Investment	\$1,681,112	

Recommendations

That Council **receive** this paper and **note** the strategy and high level composition of the expenditure.

That Council **note** that the 2020/21 Budget is consistent with the requirements in the Finance and Investment Strategy regarding net equity, but that the attainment of investment target goals is likely to be compromised by the COVID-19 pandemic's impact on the economy and markets.

That Council **approve** for 2020/21 an operational expenditure budget limit of \$13,442,192 and capital expenditure of \$1,681,112.

That Council **note** the Revenue target of \$12,812,031.

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