ICANN80 | Prep Week – Finance and Planning Update
Tuesday, May 28, 2024 – 6:30 to 7:30 PM KGL

KELLY MEDINA: Hello and welcome to the finance and planning update. My name is Kelly Medina and I am the remote participation manager for this session. Please note that this session is being recorded and is governed by the ICANN expected standards of behavior. During this session, questions or comments will be read [inaudible] or within the chat if notated as a question. I will read them out loud during the time set by the moderator of this session. If you would like to ask your question or make your comment verbally, please raise your hand. When called upon, you will be given permission to unmute your microphone. Interpretation for this session will include English, French, Spanish, Chinese, Arabic, Russian, and Portuguese. Please state your name for the record and the language you will speak if speaking a language other than English. Please speak at a reasonable pace. I will now hand the floor over to Becky Nash.

BECKY NASH: Thank you very much, Kelly. Hello, everyone. This is Becky Nash from the ICANN Org planning team. We want to thank you very much for joining this finance and planning update during ICANN 80 prep week. So if we could go to the next slide, as noted for the webinar, this session is being recorded. This session is scheduled to last one hour. We have provided a link to the presentation, which is on the ICANN meeting prep week web page. And we also have an ICANN finance and planning community wiki page or community space where we do publish all of our recordings and presentations. And then, as Kelly indicated in the opening, questions and answers, we do encourage discussion during normally at the end of each section. And then at the end of the presentation, we will allow for additional Q&A time or question and answer time.

So the agenda today is we're going to start with a fiscal year 24 financial update. Then we're going to cover the ICANN FY 25 through 29 operating and financial plan and the ICANN and IANA FY 25 operating plan and budget. These plans are now adopted. And then we have a short update of the FY 26 or fiscal year 26 planning process and all of the key steps that are upcoming. And again, at the end, we will have additional time for Q&A. So if we go to the next slide, I'd like to ask my colleague Alex Morshed to present on this topic. Thank you.

ALEX MORSHED: Thank you, Becky. Hello, everyone. This is Alex Morshed from the finance team. I'm going to provide a financial update for FY 24, which is the current fiscal year we're currently in, which ends on 30th of June, 2024. This update will cover year to date financials through our fiscal third quarter and also an update on our forecast for the entire fiscal year. Next slide, please.

We wanted to highlight that we publish management financials quarterly on our website. This is a screenshot from that link that we have here. So on the screenshot, you can see the recently adopted FY 25 plans that Becky just mentioned. And below that, the quarterly reports for the current fiscal year FY 24. So I will cover a few slides from our Q3 report, which is the box in red there. Next slide, please.

Starting with an overview of total ICANN, the financials here correspond to the nine months beginning 1 July 2023 and ending 31 March 2024. The information is broken up by segments of total ICANN, each with its own source of funds, and the following slides will go into more detail about some of the segments. We normally start with ICANN operations, but for change, I'll start with the next round of the new gTLD program.

So on the next slide, following a comprehensive implementation plan delivered to the Board, the Board approved $22 million in funding for this implementation starting April 2023 and goes through June 2024. That funding covers various items, including new staff needed for the program, contracts for system development, application fee development, just to name a few things. This table shows year-to-date actual implementation costs since April 2023, as well as the forecast from April 2024 through June 2024. So the actual spend to date is $15.7 million, and that is about $300K lower than budget due to slower hiring and ramping up of system development than we had originally planned. And the forecasted spend is anticipated to increase over the next three months, which is due to incremental staffing and website and application systems development.

The next tranche of funding, which will be tranche number three, will be requested in June during ICANN 80. And funding to pay for the next round development costs before the program launch will come from both the 2012 round of the new G program, the remaining application fees associated with that round, as well as the supplemental fund for implementation of community recommendations. Next slide, please.

This slide covers an overview of the grant program to date. Applications will be accepted and processed in cycles. The grant program incurred one-time implementation costs, which included creating the grant program department, the applicant help desk, and program literature, as well as documentation. The recurring program operational costs are to include ICANN staff, awareness and outreach, communication campaigns, and outsourced services for an independent evaluation panel to review applicants' eligibility.

The implementation of the program concluded with the opening of the first grant cycle at the end of March this year, 2024, and the application window officially closed last Friday, which was May 24th. Program costs to date have been closely aligned with budget estimates, as you can see on the slide. Moving forward, the grant program will consist of operational costs to run the grant program cycles. Next slide, please.

So now we'll get into ICANN operations. Year-to-date funding for ICANN operations is $3 million higher than budget. That said, expenses are $6 million higher than budget. That results in an overall variance of $3 million unfavorable to budget year-to-date. If we go into the next slide, I'll cover the forecast for full year ICANN operations.

So the full year forecast for ICANN operations is projected to end FY24 with a deficit, which means higher expense than funding. I wanted to note that other segments of total ICANN have separate funding sources, and that's aligned to plan.

On May 5th, 2024, the board voted on a resolution to approve a deficit in ICANN operations of up to $8 million. So to end the full fiscal year of up to $8 million in deficit, which again, that fiscal year ends the 30th of June, 2024. On the next slide, I'll go into some of the drivers for why this is happening.

So our current estimate of the deficit is $6 to $7 million for the full fiscal year, and the pressure on the ICANN operations financials is a result of a few factors coinciding. First, funding has been stagnant, and there are indications of decrease in FY24 and again in FY25. Second, ICANN has experienced inflationary impact on expenses, most notably in our travel and meeting costs. Third, ICANN has had several unplanned costs that have more than used our $5 million contingency budget.

And lastly, because our planning process is done so far in advance, we were not able to absorb both known and unknown increases that we've incurred. And lastly, because our planning process is done so far in advance, we were not able to absorb both known and unknown increases that we've incurred. That is it for the FY24 financial update. If there are no questions, I will pass it back to Becky.

KELLY MEDINA: Hi Alex. I believe that we have a question in the chat from Judith. Judith is asking, “Wondering why the grant program was over budget.”

JUDITH HELLERSTEIN: Yeah, if I can elaborate. These are the admin costs that you said that incurred to start up. And then you were over budget on the admin costs is what I'm hearing you say. And a lot of it is the travel, but it's all the other stuff. And the travel is related issue with at-large has continually always mentioned that we thought that the travel costs were too low. But that, but then it wasn't taken. I guess you were saying, well, no, we thought it was fine. But I'll let you answer that. And then I had the second question. Thanks.

XAVIER CALVEZ: I'll answer that. Thank you, Alex. Thank you for the question. So just to put things in context, the 18 K out of 1.4 million approximately of budget for this project. We consider that completely in line with budget. So it's not at all a very significant overage in the level of precision that we had when we developed the program estimate a year and a half ago could not be high in that level of precision. We think it's actually very much on point. The travel and meetings, like everything else, was very much estimated at the time without even knowing the specificity of who would be involved in the project from a staff standpoint, the timing of arrival of the incoming resources at the time. So this is actually a very close actual span against budget and the variances are extremely minimal considering that this estimate was established actually now more than a year and a half ago. So there's no specific driver other than the inaccuracy of making an estimate nearly two years in advance. I know you have a second question. And then after that, I see Jonathan's hand up.

JUDITH HELLERSTEIN: Yes. And the second question relates to the travel on the other parts, is that travel has [stuck out] in your other presentations. When you have done the budget, you have thought brought three different budgets. There's a worst-case scenario, there's the middle of the line and there's an optimistic one. And are we going to be switching to the worst-case scenario in budgeting? But we seem to be even under the over in the worst-case scenario. So, but that was the other thing. And then the travel, we pointed out in the past that we thought the travel, which was, which was budgeting had put in that always at the same amount as it was in the previous year even though a travel costs were rising, and it was shown later on that we were correct that it should have been revised upwards. But was basically the questions. Thank you.

XAVIER CALVEZ: Okay, let me try to answer that quickly as well. So, the scenario that you are referencing, the three scenarios that you're referencing is what we try to use when we project funding. And usually that's done between about 10 months to 24 months in advance of the year to which it applies. And therefore, we try to use those potential modeling, that modeling technique of developing a few scenarios.

Currently, we are within the range of the three scenarios, while we are below the middle one. And we continuously re-evaluate our projections on about a quarterly basis, every quarter, because that's when we have the latest information on the domain name registrations that are updated. And therefore, we will continue to revisit our FY25 plans as well on a quarterly basis to take into account the latest information then.

The travel is not necessarily budgeted at the level of the prior year. That's not how we do it. We try to project what will occur based on ICANN meetings, locations, when they are known at the time we plan, which is not always the case, as well as an estimated schedule of meetings. So, that's what we try to do. And of course, travel and meetings costs are largely, but not only, affected by the actual travel, the flight information, or the hotel information. There's many other types of costs that are also involved with that. And we try to adjust on an ongoing basis our forecasts to take into account these factors. The budget is established [once and honestly] revised currently in our process. Instead, what we do is we re-forecast the information which we publish as well. But thank you for those questions. I'm sure everyone would potentially have their own benefit from that information. Alex, back to you.

ALEX MORSHED: I think Jonathan has his hand raised. Feel free to unmute.

JONATHAN ROBINSON: Hi, it's Jonathan Robinson for The Transcript. Thanks very much, finance colleagues, for this. I've just got one point, which is probably more of a comment than a question, but you highlighted the four causes for the deficit, which are logical and reasonable. The only point I would have is, when you highlighted the fourth one, this timing of the planning process, I mean, to my mind, that's what you have every year. That is the nature of the ICANN planning process. So, it may well be, it seems to me that that's not an exception. That's just the standard that you work to. And so, highlighting it as a particular factor is probably unnecessary because you always work to that. So, it feels to me like the first three are reasonable, but I would question the fourth. Thanks.

XAVIER CALVEZ: Let me address that as well. You're absolutely right, Jonathan. The timing of the planning process is constant, meaning until we change the planning and the timing of the planning, it is the way it is. And you're one of the people who have participated a while back to help develop the planning process and design it. And you all know that we try to plan very much in advance of the fiscal year that we're planning for, also to enable as extensively as possible the community interaction in the plans. And as a result of which, then we are bound to set some assumptions very much in advance of the year that it is applying to. So, for example, we were just talking about funding with Judith's question. And funding is something we set more or less in the month of August or September that precedes the fiscal year to which it applies for. And that fiscal year starts basically between nine and ten months later.

So, there's a lot of time passing or set between the time we define an assumption, for example, for funding and the year it applies to. That's true, of course, for expenses as well. And that's, to Jonathan's point, that's inherent to our existing timing of the planning process. Sometimes it's a problem, sometimes it's not. So, it's a problem when we set an assumption and then that assumption significantly changes afterwards. And that was the case this specific year for the funding for the FY24 budget. And that's why we mentioned that point and completely agree, Jonathan, with your point. It's a recurring reality, this timing of the planning process. In this specific year of FY24, it was a factor that led us to have to change our assumptions and forecast after we had started planning, which is inconvenient logistically, but is circumstantial to your point. And there's also ways we can mitigate the negative impact of this situation. So, I appreciate your comment, which I fully agree with. I just wanted to provide a bit of insight for everyone on the factors that had led to the difference in FY24. Thank you.

KELLY MEDINA: Thank you, Xavier. We will now go over to the next section, Becky.

BECKY NASH: Thank you, Kelly. For the record, this is Becky Nash from ICANN Org Planning. So, we are now going to cover the adopted ICANN FY25-29 Operating Plan and Financial Plan and FY25 Operating Plan and Budget process. Next slide, please. Just as an overview of ICANN's planning process, for those of you that may be new to the planning and finance processes, ICANN has four key steps in planning. So, the first one is a five-year strategic plan. And this is the process for defining ICANN's strategic direction. And the current strategic plan, in effect, is the adopted FY21-25 strategic plan. And the current year that we have just been planning for FY25 is the last year of this strategic planning cycle.

The next key step is a five-year operating and financial plan. And this is where we outline all of the activities, we analyze the funding available, and then we describe all of the functional activities within ICANN Org. The next key step is the budgeting process. And this is an annual process where we have an annual operating plan and budget. And this is the process to allocate the resources to the planned activities and prioritize the activities within that fiscal year. And then the final step within planning is the process for explaining the achievements via a series of reporting, such as the financial reporting and our CEO report. So, progress measurement and reporting is the last key step in the planning cycle.

For an overview of the FY25 planning process, we just would like to highlight the steps that were taken prior to adoption. So, the draft FY25-29 plans were published for public comment in mid-December 2023. And ICANN held two public webinars to provide the community insights on those publications. After the public comment period ended, a summary report on public comments was published in April 2024. Following the public comment proceeding, a new set of financial projections were developed, which were not subject to public comment due to timing. We were just talking about the fact that new information had come up regarding the funding forecast. And as a result, both funding and expenses were revised. These revised plans were published on the public comment page as a key step of transparency to the public. And we also held two public webinars on the 25th of April 2024 to provide information on the revisions to both funding and expenses.

Following a recommendation by the Board Finance Committee, on the 5th of May 2024, the ICANN Board adopted the ICANN FY25-29 Operating and Financial Plan and the FY25 One-Year Operating Plan and Budget. In addition, we have the IANA Operating Plan and Budget, which also was adopted by the ICANN Board.

Following the adoption, the plans then were subject to the Empowered Community process. And that process started on the 9th of May 2024. And if no rejection action petitions are raised or pending, then in June, these plans will be ready to go into effect at the beginning of the next fiscal year, which is FY25, which will begin on July 1st, 2024. Now we're going to move back to the budget financial schedule. So I'm going to pass the floor back to my colleague, Alex.

ALEX MORSHED: Thank you, Becky. If we move to the next slide, we'll start with a financial overview of total ICANN, the FY25 budget, and this is by business segment. The red box indicates the revisions that Becky mentioned, and this only impacted the ICANN operations segment of total ICANN. Based on the latest projections, funding for FY25 is now $145 million versus the previous estimate of $148 million. ICANN operations has reduced expenditures by an equal amount by increasing our planned cost savings initiatives from $5 million to $8 million. So everything still balances. The total expenses is $145 million matching to funding. And noting that funding for IANA and separately funded activities, which are the other segments shown here, the new gTLD program and the grant program, these remain the same as published in the draft plans, which were published in December of 2023. Next slide, please.

This is a more detailed look at ICANN operations in the FY25, the adopted FY25 budget versus the draft publication from December of 2023. So as you can see, the only changes are that funding was reduced by $3 million, which is just 2%. And there's a corresponding decrease in the cost savings initiatives by $3 million. This slide also highlights that all other assumptions remain the same.

If we go to the next slide, I wanted to talk about the challenges that we're currently facing, and we know that we're in a situation of low funding growth, and we have inflationary pressures on our costs, which will impact ICANN's financial position for the next few years. Given these economic conditions, ICANN is increasing its focus on identifying new efficiencies and process improvements to maintain and support the services that we provide while minimizing costs. ICANN is committed to achieving a sustainable rate of expenses that is within our level of funding by the end of FY25, and the board will be updated on our status throughout FY25.

Moving on to the next slide, we wanted to highlight the IANA operating plan and budget, which is part of the overall ICANN operating plan and budget. But again, the IANA operating plan and budget was not impacted by the change in estimated funding that I mentioned. Within the ICANN operating plan and budget, there is the PTI operating plan and budget, as well as additional ICANN-funded expenses for the IANA functions. ICANN received input from PTI through the planning process, as indicated by some of the facts and dates on the slide. The PTI board adopted the FY25 PTI operating plan and budget in March of 2024, and the ICANN board adopted the ICANN and IANA operating plan and budgets in May of 2024. These plans will go into effect on the 1st of July 2024, pending no action after the empowered community period.

The next slide shows a more detailed look at the FY25 IANA budget, which again includes the PTI budget and IANA support activities. There were some small differences, but overall the IANA services remain the same as the prior year, which is shown with the FY24 IANA budget. And that's all we wanted to highlight for the FY25 update. If there are no questions, I'll hand it back to Becky again.

BECKY NASH: Thank you, Alex. I don't see any questions that have come in, so I will go ahead and give a short update on the FY26 operating plan and budget process, along with overall FY26 planning activities. So ICANN's planning process includes, as we've indicated, a five-year strategic plan every five years, a five-year operating plan, and a one-year annual operating plan and budget. These plans are mandated by ICANN's bylaws, and the development of ICANN's five-year FY26-30 strategic plan is underway as of now. The draft FY26 strategic plan and the draft FY26-30 five-year operating plan is planned to be published for public comment on or around the 9th of July 2024. We are highlighting that there are several opportunities later this week. There's a prep week session, and then there is an ICANN 80 session all on the FY26-30 strategic plan.

So the FY26 annual operating plans and budget process is also kicking off now in May 2024, with the first key step in the annual process is the community-led planning prioritization process. So we are going to be asking for nominations from the SO and AC leadership for community members to join this planning prioritization group, which has the main priority to provide input to ICANN on prioritization of activities that are being included in the annual operating plan and budget.

We also have had a recent update on the planning prioritization framework document, which is the guidelines, and that now includes a section for retirement of specific review recommendations that have been board-adopted but are being evaluated for retirement. So that is something new for FY26, and you'll hear more about that in upcoming planning webinars.

On the next slide, we've just provided an overview of some of the key dates in the annual operating plan and budget timeline. This is a proposed timeline but is very consistent with prior years. The only change is that during the period when ICANN is developing the next five-year strategic plan, we do not hold any trend sessions as it relates to an annual update to the strategic plan. Instead, we are developing the actual FY26 through 30 strategic plan.

But as noted, just key dates again is the planning prioritization process that will be kicking off at the end of May, runs through approximately June. Then we move into the development of the operating plans and budgets with, again, an estimated planned date for public comment should be very consistent with the previous years in mid-December. Following the December publication, we will hold webinars. And then we have the public comment period, which will run through February, and we will then have the summary public comment report on those plans. And we move towards the steps towards adoption, which, again, will have a board adoption anticipated in April and May. And then the empowered community period will run either May or June, and the plans will be available to go in effect at the beginning of FY26.

On this slide, we are just highlighting all of the FY26 planning processes and the various public comments. This provides information about both the annual planning process, the strategic planning process, and then separate plans for PTI and IANA as well. So we would just like to highlight that this is a busy year in planning, and we've provided this just to show the various public comments that the community will have the opportunity to consider public comments.

So the first one in the blue box in July, again, is ICANN's five-year strategic plan and five-year operating plan, which will be implementation plans to achieve the strategic plan. So that public comment period is July through September. We also have for PTI a strategic plan as well, and we are anticipating the five-year strategic plan for PTI to go out for public comment in the September time frame, and that would run September through November.

Then we move into the annual timelines, which would be the annual PTI operating plan and budget, and then the annual FY26 ICANN and IANA operating plan and budget, and those public comments are, that public comment period is expected to run from December through February. So this is just a resource to show all of the various planning processes that are coming up for public comment. And that concludes the update that we have, both from finance and planning, and we'll just pause here just to check if there are additional comments and or questions from the community.

KELLY MEDINA: Thank you, Becky. And as a reminder, if you would like to make a verbal or comment or question, please raise your hand on Zoom and we will ask you to unmute. Okay. At this time, I don't see any questions in the chat or in the Q&A pod. We also do not have any raised hands. Judith, if you want to go ahead and unmute.

JUDITH HELLERSTEIN: Yes. So you talked about that because of the planning and the budget and the shortfall that you had to reorganize some priorities and make things more effective, that also limits the amount of money. Okay, let me just phrase. Since this year is the first year, we don't have the additional money separated outside the budget for the additional budget requests, we have them included in the ICANN budget this year, this makes these requests more susceptible to being reduced and having the envelope reduced and not meeting some of the goals because when the budget is also late, these get impacted more, it seems, more so than others' programs. And so I was wondering whether if you could address this and how can communities sort of fight for more community programs and less money going to other areas. Because the budget, there's a lot of things that can be things when you cut, like a certain point of, some programs are more cut than others proportionally. And so I think we would love to be in the process of trying to figure out how those cuts and how we can galvanize support for things that the community wants now that there's no separate envelope outside to protect from the harsh budget cuts. I don't know if you understood that question.

BECKY NASH: This is Becky. I can start off. As you indicated, Judith, a process that we used previously to estimate some of the support for the community called the additional budget request process was ended during the FY25 planning process. And instead, requests will be considered as part of the budget process as they are reviewed and still go through an evaluation. So I think what your comments are related to is the fact that ICANN, for FY25, as a result of the funding projections coming in lower than anticipated, and we do expect that there will be slower funding growth on the horizon as well and ICANN needs to maintain a sustainable rate of expenses.

So with that, ICANN is committed first to achieving a sustainable rate of expense to ensure that we have our planning principle of a balanced budget in place. And then we are looking at all of the opportunities for efficiencies and process improvements, but still while maintaining support and services, but while minimizing costs. So there are definitely areas for efficiencies that are underway, but I think having an open dialogue with the community at all times about different programs and support will be very useful for evaluating how we achieve a sustainable rate of expense collectively.

JUDITH HELLERSTEIN: Yeah, thank you. Although I think there seems to be less protection now when it's incorporated in the main budget than when it was separated out, because that separating out had also some protection for community needs, which somehow gets lost now because it's subsumed into the main budget.

BECKY NASH: Thank you, Judith. I think there really isn't the concept of protection per se, because again, we have these planning principles, but it is something that's thought of and the ongoing support is included properly in the annual operating plan and budget from the start. So it's more like a timing in my view. And again, we are committed to having a dialogue about all of the efficiencies that ICANN seeks to put in place. Any other questions or comments from any of the attendees? Well, if there are not any other comments or questions, we want to thank everyone for attending this webinar today, and we look forward to your participation in all of the upcoming planning processes. Thank you very much.

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