

**ICANN**

COMMUNITY FORUM

58

**COPENHAGEN**

11-16 March 2017



**FINANCIAL ACCOUNTABILITY:**  
Operating Plan and Budget

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# Introduction



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# Agenda

1

Financial  
Accountability &  
ICANN's Mission

2

Draft 5-Year  
Operating Plan  
Update and FY18  
Operating Plan &  
Budget

3

Budget  
Working  
Group  
Takeaways

4

Empowered  
Community (EC) -  
Caretaker  
Budget/Budget Veto

5

Q&A

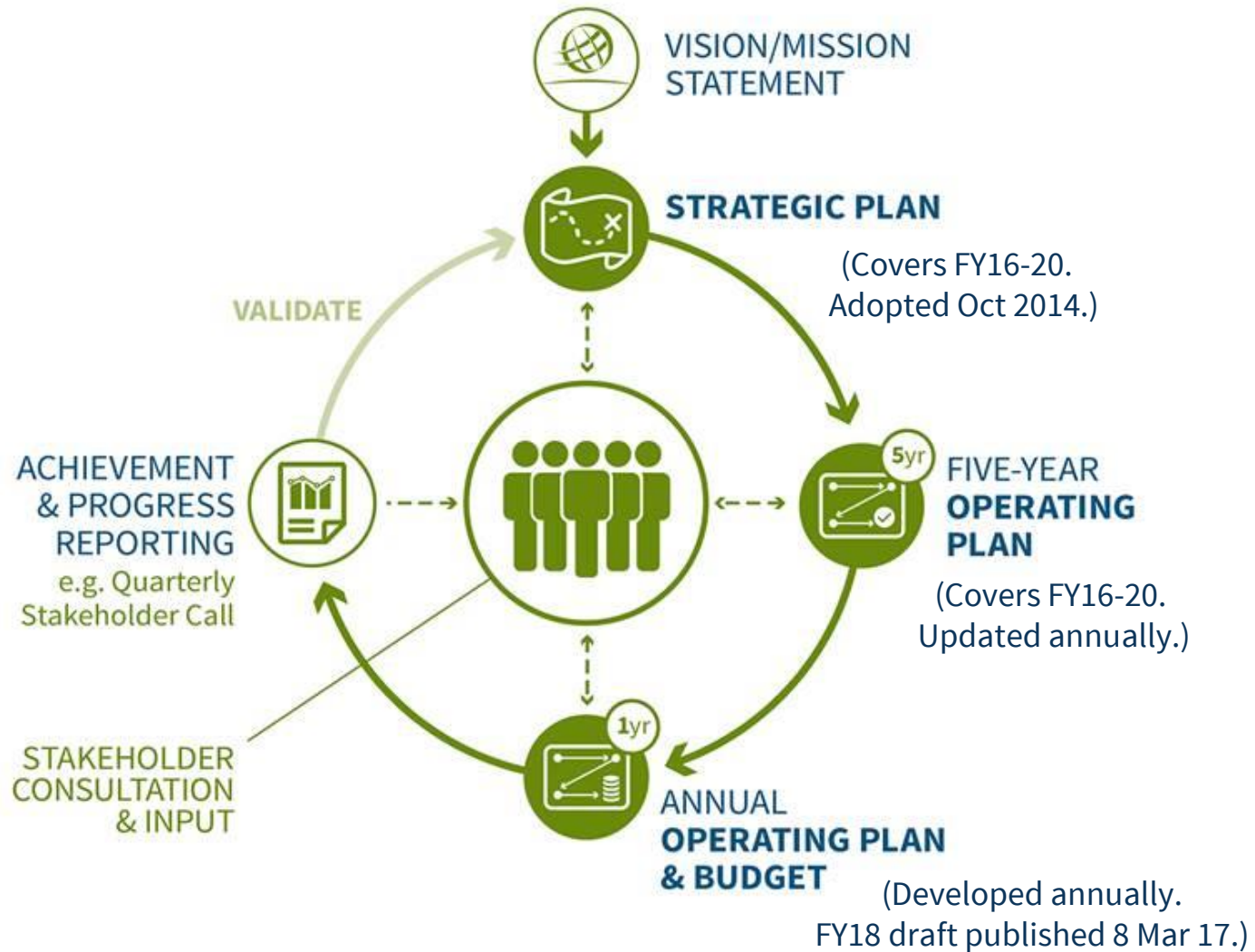
# Financial Accountability & ICANN's Mission

# Financial Accountability

- ICANN's by Laws (Article 1, Article 3, and Article 4) outline ICANN's Mission, Core Values and its commitment to Transparency and Accountability.
- The planning process is a critical mechanism to support ICANN's Accountability to the public.
- Several activities are performed to be transparent and accountable to the public as it relates to Financial Accountability:
  - Planning - strategic, operational, and budgeting approaches adopted by ICANN;
  - Monitoring of financial viability and governance during the budget cycle;
  - Reporting mechanisms that ensure transparency of ICANN financial matters

<https://www.icann.org/resources/accountability>

# Financial Accountability - Planning (1 of 3)



# Financial Accountability - Planning (2 of 3)

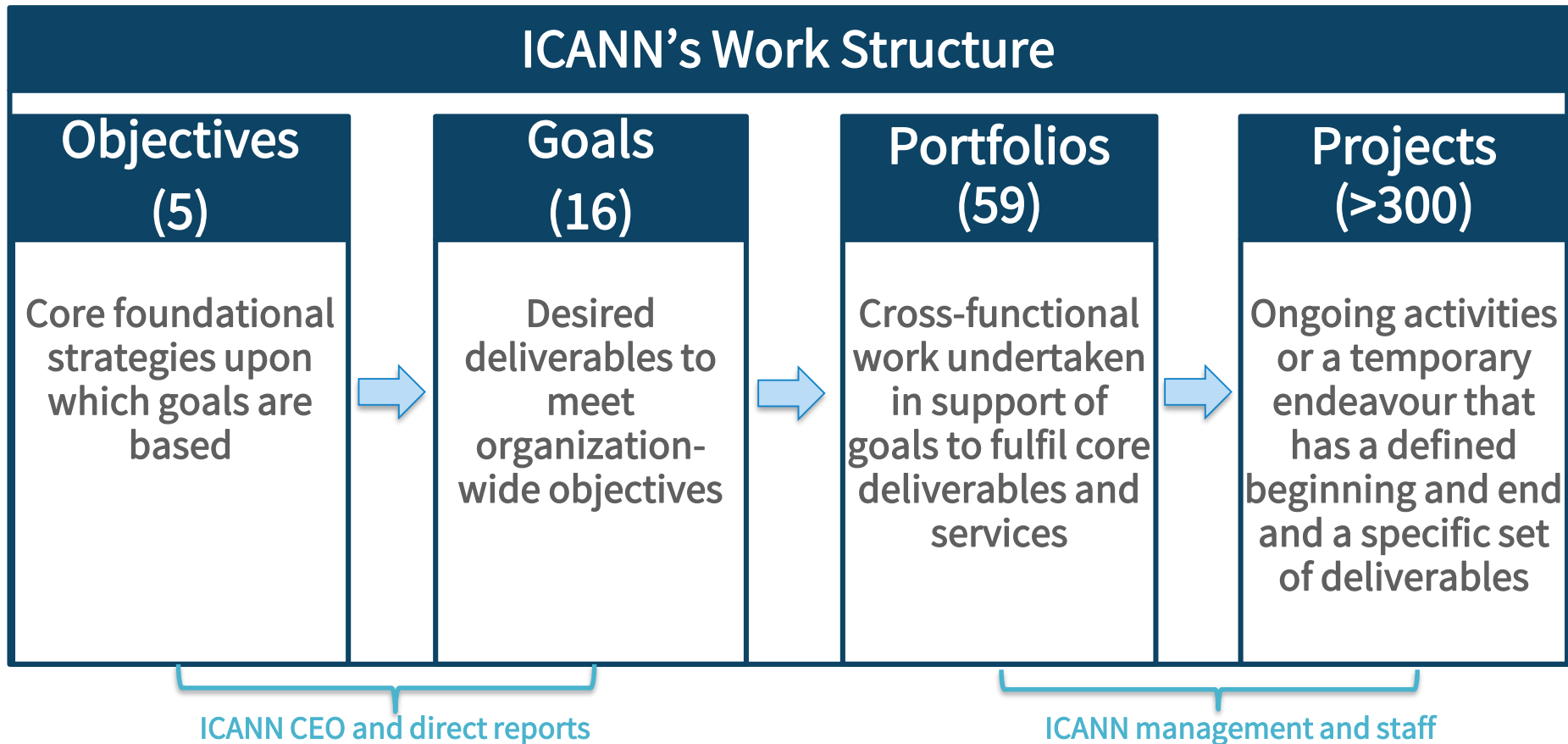
Community input



ICANN Staff



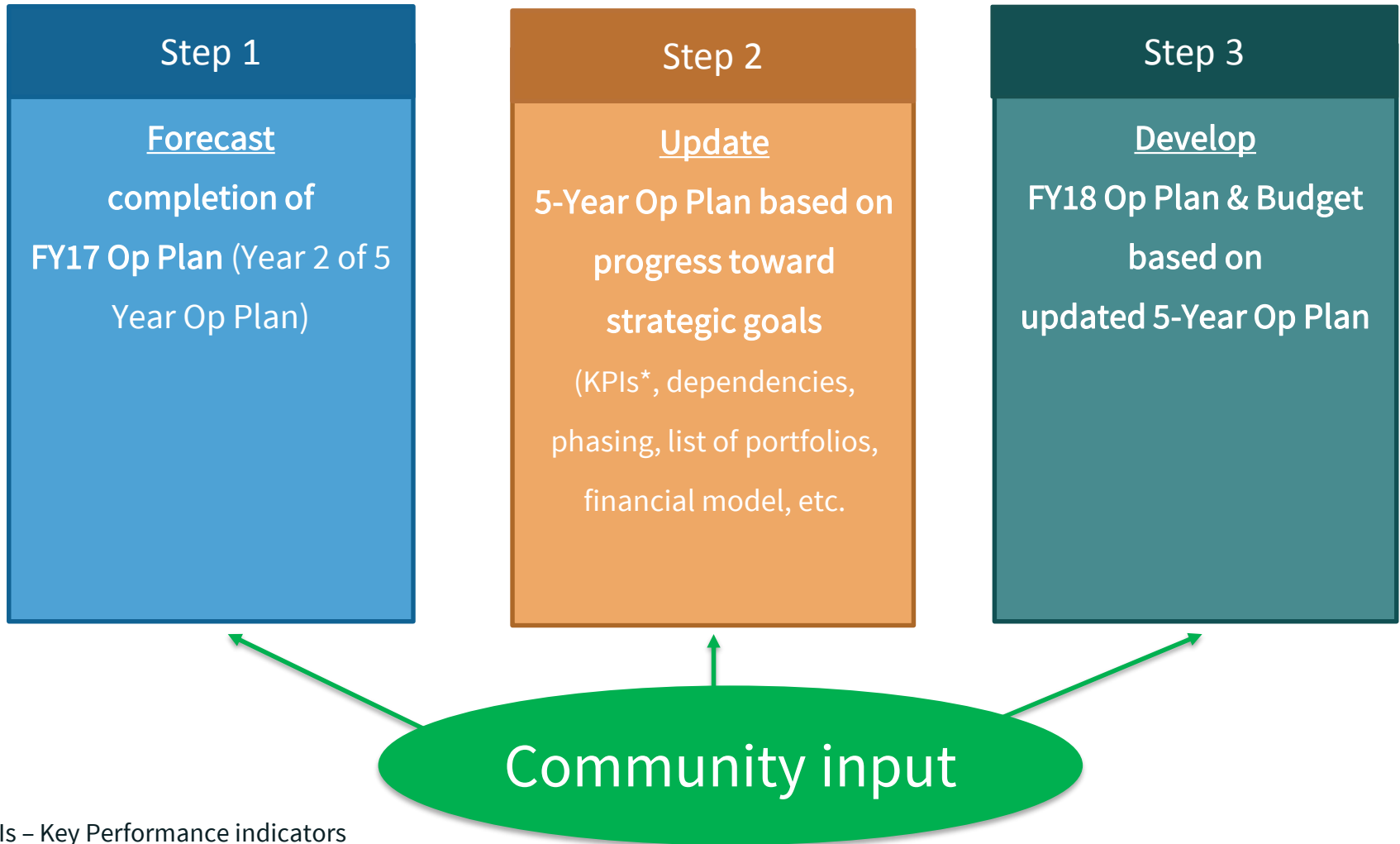
## ICANN's Work Structure



ICANN CEO and direct reports

ICANN management and staff

# Financial Accountability – Planning (2 of 3)



\*KPIs – Key Performance indicators



# Financial Accountability - Monitoring

ICANN staff monitors progress toward meeting objectives on a regular basis.

This includes:

- Comparing actual funding and costs to budget monthly;
- Estimating the financial results for the fiscal year based on progress and
- Reviewing financial results so that risks and opportunities to the operating plan can be addressed as needed.

# Financial Accountability - Reporting

ICANN staff reports results to the community in support of commitment to accountability and transparency.

## Monthly

- KPI Dashboard (Goal 3.1)
- Publication of on-going expenses on selected projects

## Quarterly

- Quarterly Financial Statements
- Quarterly Stakeholder Call
- Publication of on-going expenses on reviews

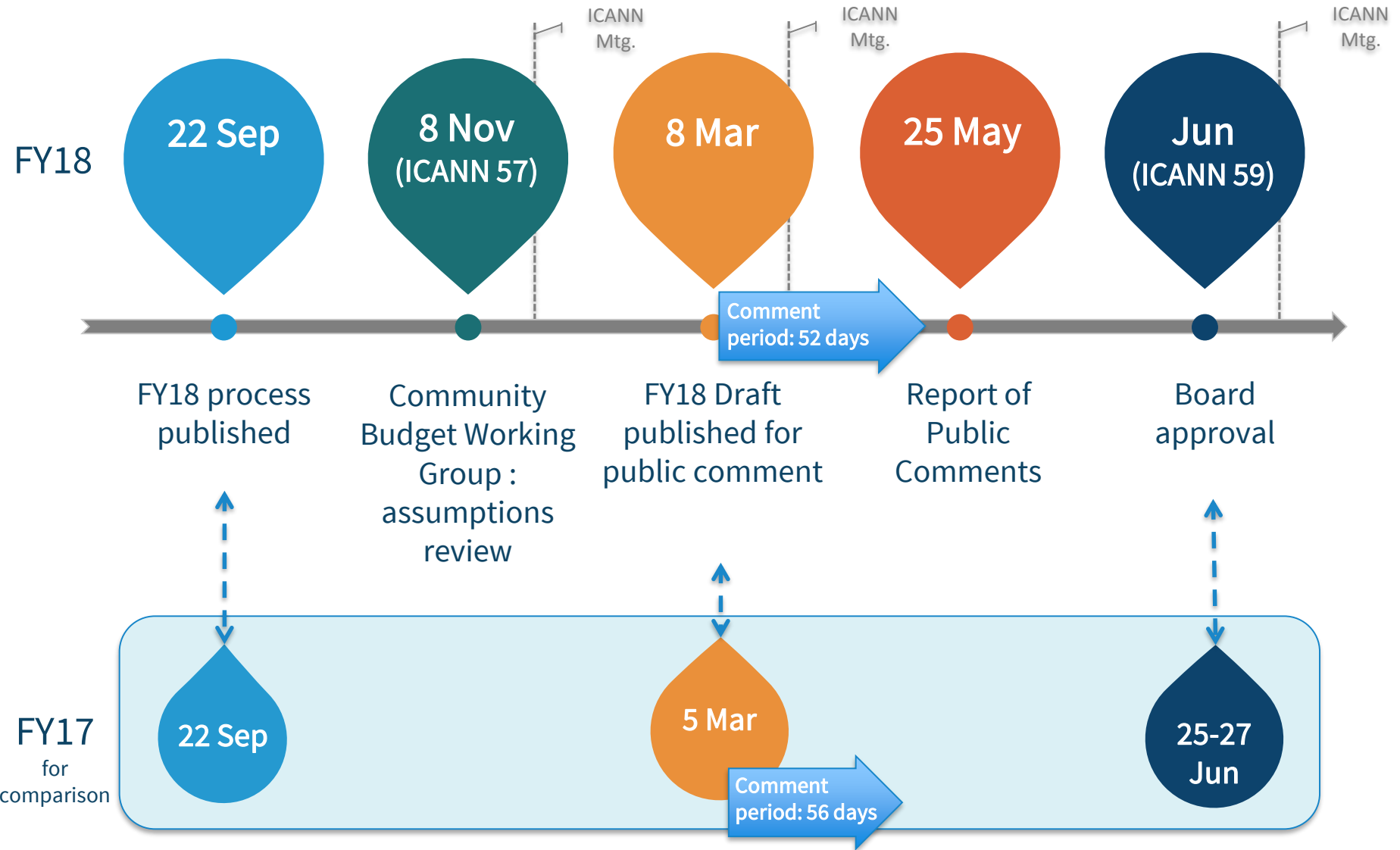
## Annually

- Independent Auditors Report
- Tax Report Form 990
- Annual Report
- Operating Plan and Budget
- Staff Remuneration
- Board Compensation
- ccTLD Contributions
- Many more

<https://www.icann.org/resources/pages/governance/financials-en>

# Draft 5-Year Operating Plan Update and Draft FY18 Operating Plan & Budget

# FY18 Planning Process Overview and Timeline



# 5YOPU FY17 → FY18 Types of Changes

1

## Objectives and Goals

Objectives and Goals are defined in the Strategic Plan and remain unchanged in the 5-Year Operating Plan.

2

## Portfolios, KPIs, Dependencies, and Phasing

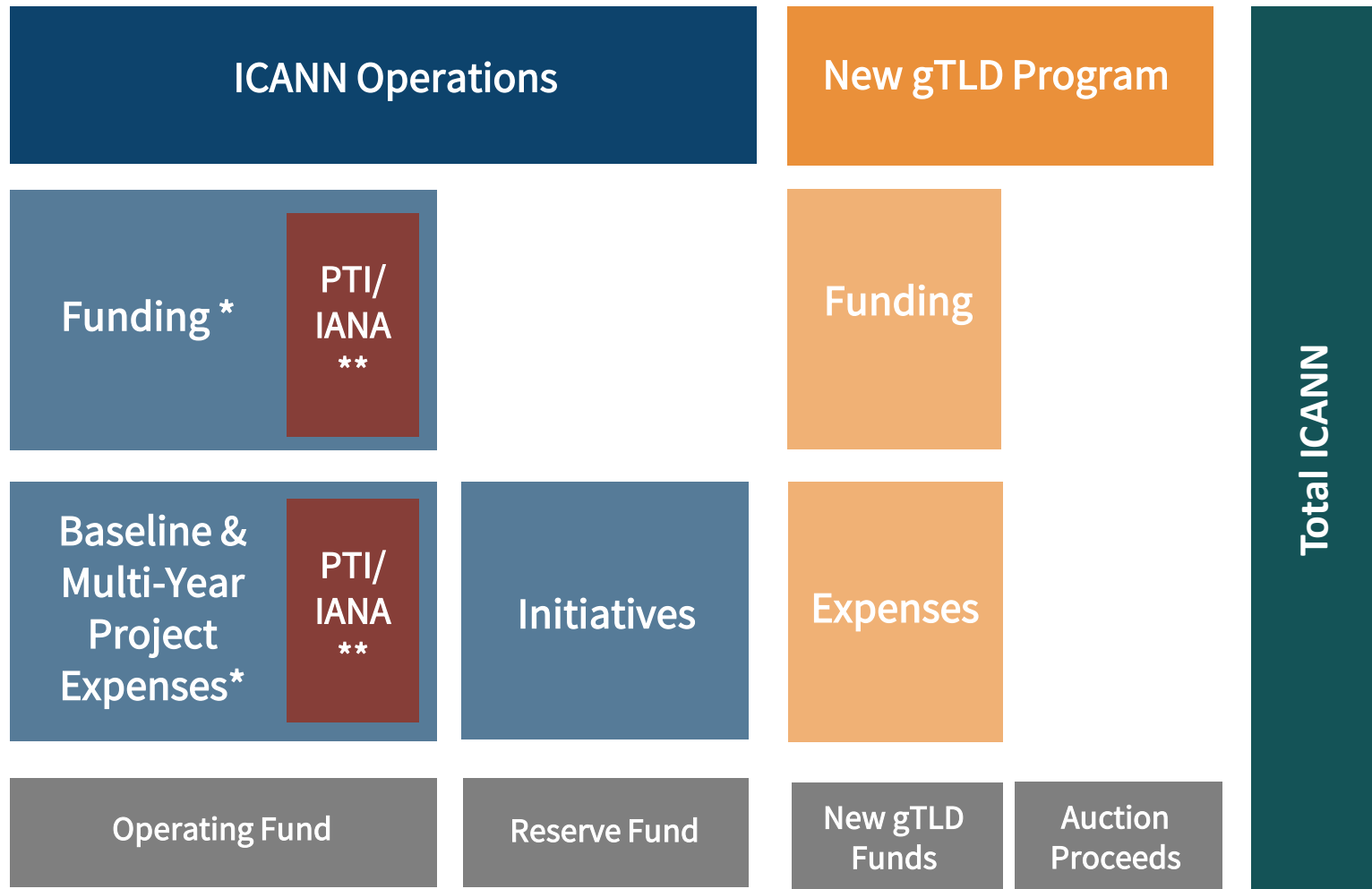
Updated to reflect work that will be completed in FY17, work to be started in FY18, and refinements to work that will continue.

3

## Three High Profile Updates

- PTI op plan incorporated into total ICANN Op Plan
- No IANA Stewardship Transition
- Reviews incorporated into Bylaws. Now called Specific Reviews.

# ICANN Org. Financial Reporting Structure



\* Excludes depreciation and bad debt expenses

\*\* IANA Services includes ICANN's and PTI's IANA Expenses

# Draft FY18 ICANN Ops Op Plan & Budget Highlights

1

## FY18 Operating Plan

- Year 3 of the 5-year Operating Plan.
- No major changes to baseline operations.
- IANA functions segregated in PTI.

2

## FY18 Budget balanced

- Funding of \$142.8m
- Baseline expenses of \$142.8m
- No initiatives funded from Reserve Fund

3

## Funding increases at a slower rate

- Funding forecast reaches \$142.8m, 5% above the FY17 forecast (\$135.9m).
- Slow down consistent with number of new TLDs in operations reaching its peak.

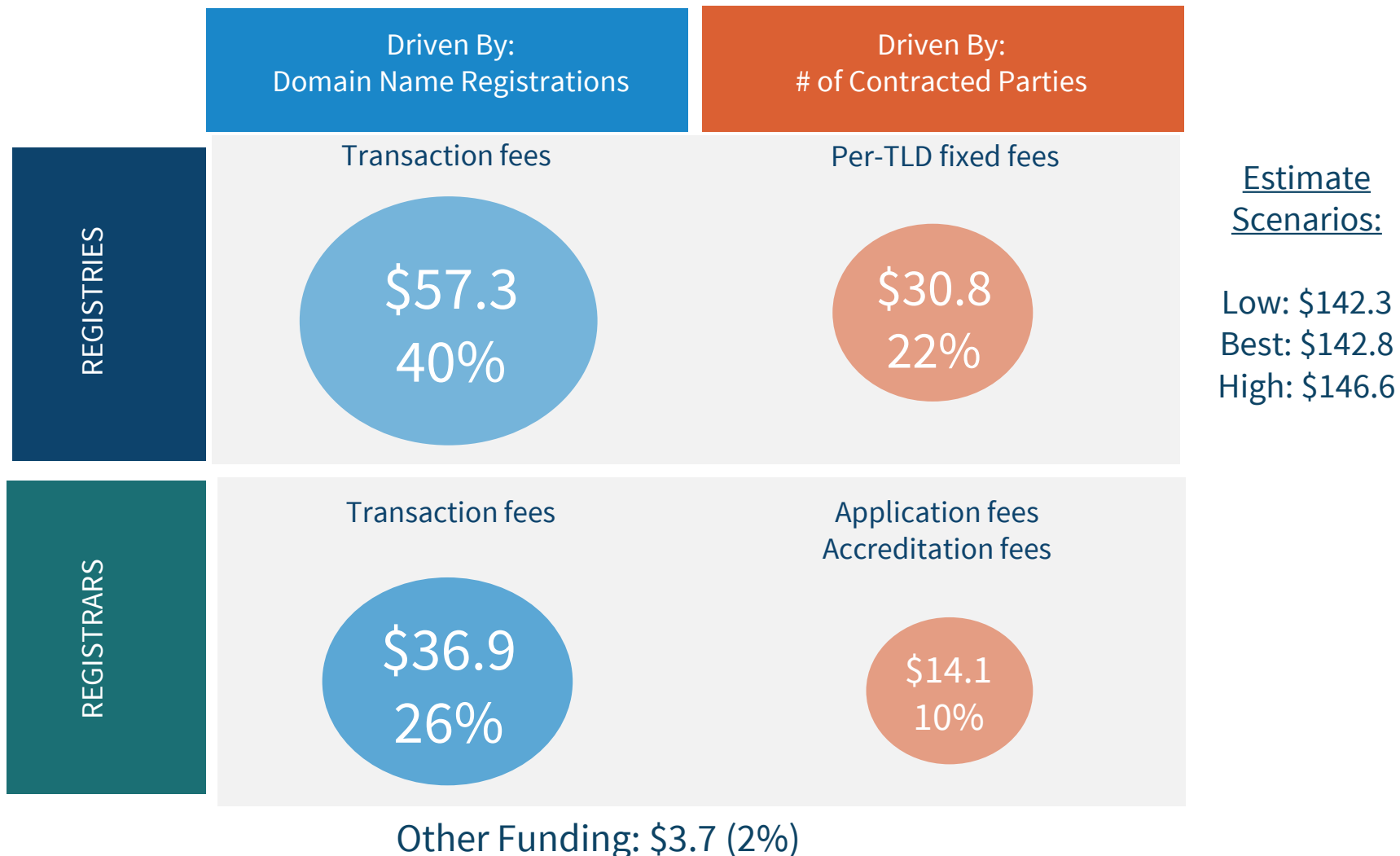
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## ICANN Operations baseline expenses

- Baseline cash expenses of \$142.8M (excl. contingency) increase organically by about 5% over the FY17 forecast (\$130.4M), mainly driven by Personnel expenses.

# Draft ICANN Ops FY18 Funding - Overview

Total: \$142.8 (100%) ("Best estimate" scenario)





# Draft ICANN Ops FY18 Funding - Highlights and R&Os

## Highlights

- Conservative assumptions
- Continued engagement with community >> general acceptance of reasonableness

## Risks

- Lower legacy transactions growth (Low probability: \$0.5m)

## Opportunities

- Higher new gTLD transactions growth (Med. Probability: \$3.8m)

# ICANN Ops Expenses Overview (1 of 2)

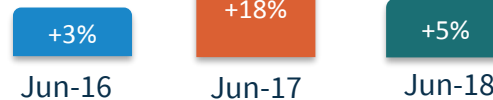
Annual Expenses = Baseline cash ICANN Ops expenses + IANA

1

Baseline cash expenses = Annual Funding

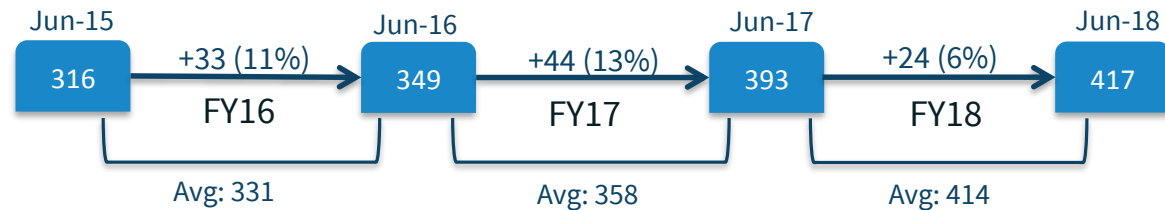
2

Baseline expenses growth slowing down



3

Slowdown of headcount growth in FY18



4

IANA Stewardship Transition concluding in FY17, including WS2.

## Risks

- Possibility/ probability of carrying out “Unfunded Potential FY18 Activities.”
- Increasing urgency of large projects to be carried out.
- Potential impact of the bylaw-driven cycle of reviews both on Community and ICANN organization workload and bandwidth.
- WS2 Transition work expenses delayed to FY18.

## Opportunities

- Ability to prioritize the activities of the ICANN Community.
- Ability to reduce headcount growth as result of possible optimization of resources

# PTI and IANA Budget

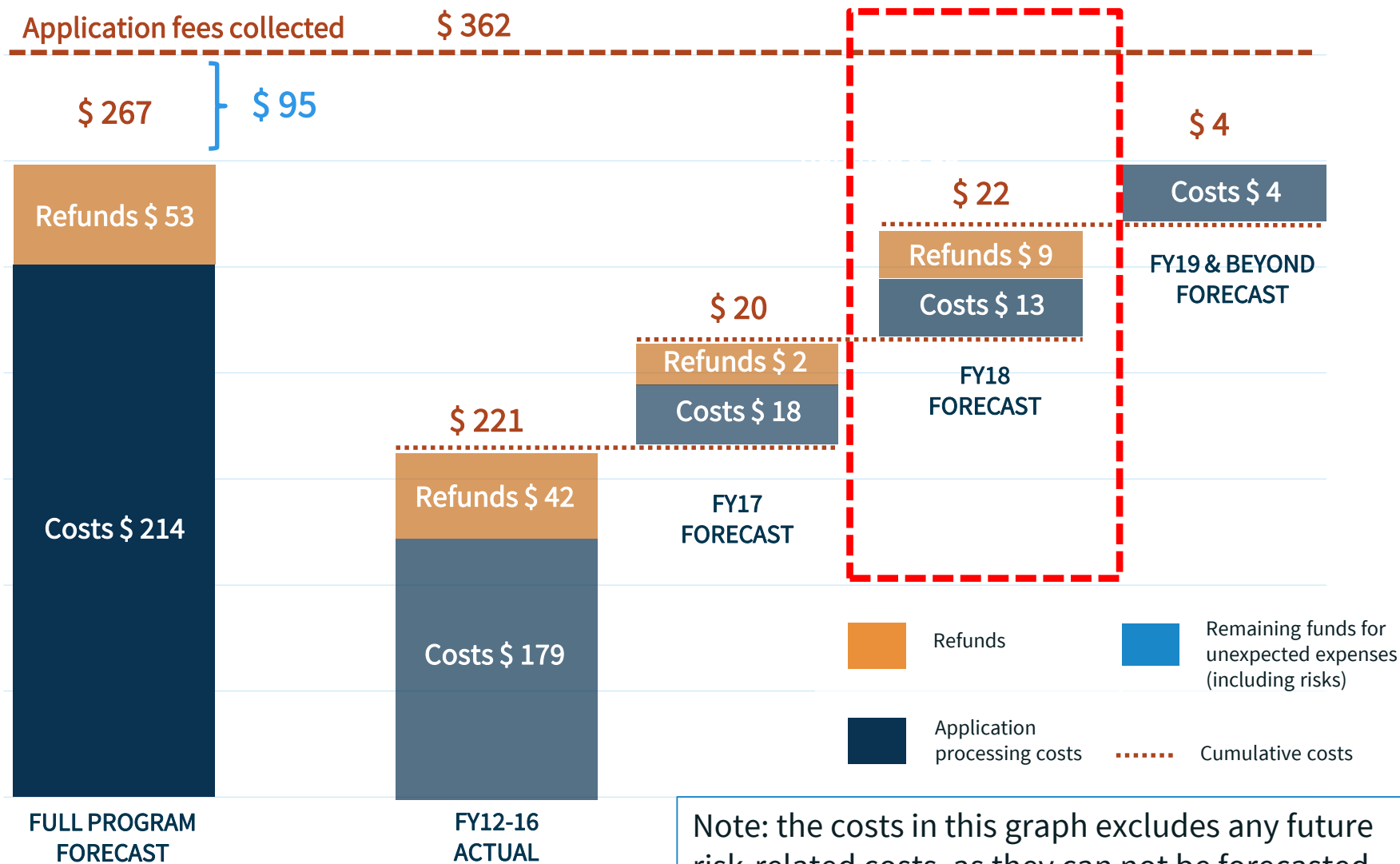
<b>FY18 IANA Budget in Millions, USD</b>	<b>IANA Services FY18 Budget</b>
PTI Operations IANA Budget	\$9.6
RZMA (Operating Expense) (a)	\$0.3
Capital (b)	\$0.1
<b>Subtotal</b>	<b>\$0.4</b>
<b>TOTAL IANA BUDGET</b>	<b>\$10.0</b>

(a) RZMA = Root Zone Maintainer Agreement for \$300K per Year. This is funded by ICANN Operations

(b) Capital for IANA for IT systems maintenance

- PTI FY18 OP&B adopted by the PTI Board on 27 January 2017.
- ICANN received as input into the FY18 IANA Budget which is subject to the empowered community veto process
- The IANA Budget is included in the Caretaker Budget should a veto process be triggered

# New gTLD Program – Multi-year Forecast



Note: the costs in this graph excludes any future risk-related costs, as they can not be forecasted.

# Total ICANN Financial Overview

in Millions, USD	FY18 Draft Budget			FY17 Forecast <sup>(1)</sup>			Increase/(Decrease) vs. FY17 Forecast					
	Total ICANN Ops	New gTLD*	ICANN Org.	Total ICANN Ops	New gTLD*	ICANN Org.	Total ICANN Ops	%	New gTLD	%	ICANN Org.	%
<b>Funding</b>	<b>\$142.8</b>	<b>\$19.5</b>	<b>\$162.3</b>	<b>\$135.9</b>	<b>\$154.1</b>	<b>\$290.0</b>	<b>\$6.9</b>	<b>5.1%</b>	<b>(\$134.7)</b>	<b>-87.4%</b>	<b>(\$127.7)</b>	<b>-44.0%</b>
Personnel	69.5	\$2.5	72.0	\$60.4	\$4.6	\$65.0	9.1	15%	(\$2.1)	-45%	7.1	11%
Travel & Meetings	17.6	0.7	18.3	18.0	\$1.0	19.0	(0.4)	-2%	(0.3)	-32%	(0.7)	-4%
Professional Svcs.	27.6	7.0	34.6	27.2	11.4	38.6	0.4	1%	(4.4)	-39%	(4.0)	-10%
Administration <sup>(2)</sup>	18.7	0.7	19.3	17.0	1.1	18.1	1.7	10%	(0.4)	-37%	1.3	7%
Capital	3.6	0.0	3.6	7.7	0.0	7.7	(4.1)	-53%	0.0	n/a	(4.1)	-53%
Contingency <sup>(3)</sup>	5.8	0.0	5.8	0.0	0.0	0.0	5.8	n/a	0.0	n/a	5.8	n/a
<b>Baseline Cash Expenses</b>	<b>\$142.8</b>	<b>\$10.9</b>	<b>\$153.7</b>	<b>\$130.4</b>	<b>\$18.0</b>	<b>\$148.3</b>	<b>\$12.5</b>	<b>10%</b>	<b>(\$7.1)</b>	<b>-40%</b>	<b>\$5.3</b>	<b>4%</b>
<b>Increase/ (Decrease) to Net Assets</b>	<b>\$0.0</b>	<b>\$8.6</b>	<b>\$8.6</b>	<b>\$5.5</b>	<b>\$136.2</b>	<b>\$141.7</b>	<b>(\$5.5)</b>	<b>-100%</b>	<b>(\$127.5)</b>	<b>-94%</b>	<b>(\$133.1)</b>	<b>-94%</b>
<b>Average Headcount</b>	<b>413.8</b>	<b>0.0</b>	<b>413.8</b>	<b>358.2</b>	<b>9.0</b>	<b>367.2</b>	<b>55.6</b>	<b>16%</b>	<b>(9.0)</b>	<b>-100%</b>	<b>46.6</b>	<b>13%</b>

(1) FY17 Forecast excludes IANA Stewardship Transition travel and meetings, professional services, admin, and capital costs.

(2) ICANN Ops excludes Depreciation and Bad Debt of ~\$8M.

(3) FY17 activities covered by the contingency have been reported in the expense categories above based on the nature of the expense.

# Total ICANN Cash Flows - FY18

Cash Flow Statement	For the Year Ended 6/30/2018				
	Operating Fund	Reserve Fund	NgTLD	Auction Proceeds	Total
In Millions, US dollars					
<b>Funds Under Management - June 30, 2017</b>	\$ 44.9	\$ 58.6	\$ 123.7	\$ 233.0	\$ 460.1
Collected/ (refunded) from contracted parties	141.3		(9.0)		132.3
Auction Proceeds	-		-		-
Paid to vendors, net of reimbursement	(62.8)		(8.3)		(71.2)
Paid to employees, net of reimbursement	(70.9)		(2.5)		(73.4)
Reimbursement from Reserve Fund - IANA					
Transition Project Costs <sup>(1)</sup>	\$ 4.5	\$ (4.5)			-
Historical Development Costs	2.0		(2.0)		-
Capital expenditures	(3.6)		-		(3.6)
Change in investment market value		1.2	0.3	0.5	1.9
<b>Funds Under Management - June 30, 2018</b>	<b>\$ 55.4</b>	<b>\$ 55.3</b>	<b>\$ 102.0</b>	<b>\$ 233.5</b>	<b>\$ 446.1</b>

(1) The IANA Transition Project Costs are reimbursed from the Reserve Fund every six months for the previous six months of expenses. The FY18 impact represents the project expense for H2 FY17 ( January through July ).

# New to the Process

- Caretaker budget
  - Community power to reject the strategic / operating plans and budget.
  - If the Board-approved OP&B is vetoed, **caretaker budget** replaces OP&B during veto resolution period.
- Unfunded Potential FY18 Activities
  - Include activities/expenses considered during budget development, but not included in the Draft FY18 OP&B.
  - Activities to be considered during FY18, based on priority and availability on funding.



# Draft FY18 Operating Plan and Budget (1 of 2)

## Table of Contents

<b>0 – Summary of Changes</b>	<b>4</b>
<b>1 – Introduction</b>	<b>5</b>
<b>2 – Planning and Budget Overview</b>	<b>7</b>
<b>3 – ICANN Operations</b>	<b>9</b>
3.1 – Financial Overview	9
3.2 – Funding	11
3.3 – Baseline Cash Expenses	14
3.5 – Risks and Opportunities	17
3.6 – Unfunded Potential FY18 Activities	18
3.7 – Caretaker Budget	19
<b>4 – PTI Operating Plan and Budget and IANA Budget Process Overview</b>	<b>20</b>
4.1 – IANA Budget Overview	21
<b>5 – New gTLD Program</b>	<b>22</b>
5.1 – New gTLD Program – Financial Summary	22
5.2 – New gTLD Program – Multiyear View	23
5.3 – New gTLD Program – Variance Analysis	24
5.4 – New gTLD Program – Operating Expenses Variance Analysis	25
<b>6 – Total ICANN Overview</b>	<b>26</b>

# Draft FY18 Operating Plan and Budget (2 of 2)

6.1 – FY18 Financial Overview	26
6.2 – Headcount – Three Year Overview	27
6.3 – Cash Flow Synopsis	28
<b>7 – FY18 Operating Plan and Budget – Description</b>	<b>29</b>
7.1 – Management System	29
7.2 – 1.1 Further Globalize and Regionalize ICANN Functions	31
7.3 – 1.2 Bring ICANN to the World by Creating a Balanced and Proactive Approach to Regional Engagement with Stakeholders	33
7.4 – 1.3 Evolve Policy Development and Governance Processes, Structures and Meetings to be More Accountable, Inclusive, Efficient, Effective and Responsive	34
7.5 – 2.1 Foster and Coordinate a Healthy, Secure, Stable, and Resilient Identifier Ecosystem	36
7.6 – 2.2 Proactively Plan for Changes in the Use of Unique Identifiers and Develop Technology Roadmaps to Help Guide ICANN Activities	38
7.7 – 2.3 Support the Evolution of Domain Name Marketplace to be Robust, Stable and Trusted	40
7.8 – 3.1 Ensure ICANN’s Long-Term Financial Accountability, Stability and Sustainability	42
7.9 – 3.2 Ensure Structured Coordination of ICANN’s Technical Resources	44
7.10 – 3.3 Develop a Globally Diverse Culture of Knowledge and Expertise Available to ICANN’s Board, Staff, and Stakeholders	45
7.11 – 4.1 Encourage Engagement with the Existing Internet Governance Ecosystem at National, Regional and International Levels	47
7.12 – 4.2 Clarify the Role of Governments in ICANN and Work with them to Strengthen their Commitment to Supporting the Global Internet Ecosystem	48
7.13 – 4.3 Participate in the Evolution of a Global, Trusted, Inclusive Multistakeholder Internet Governance Ecosystem that Addresses Internet Issues	49
7.14 – 4.4 Promote Role Clarity and Establish Mechanisms to Increase Trust within the Ecosystem Rooted in the Public Interest	50
7.15 – 5.1 Act as a Steward of the Public Interest	52
7.16 – 5.2 Promote Ethics, Transparency and Accountability Across the ICANN Community	53
7.17 – 5.3 Empower Current and New Stakeholders to Fully Participate in ICANN Activities	55
<b>Appendix</b>	<b>56</b>
A – FY18 Budget by Project	56
B – Registrar Fees	57
C – ICANN Bylaws excerpts – Caretaker budget Annex E and F	59

# Next Steps

Date	Who	Step
19 Mar	Community	Submit clarifying questions (as needed) on the draft 5-Yr Op Plan Update and FY18 Op Plan
31 Mar	Staff	Post responses to clarifying questions
31 Mar	Community	Set up a meeting with the planning team to review your submitted comments (as needed) by
05 Apr (est.)	BFC	BFC recommends Board approves SO/AC Additional Budget requests
28 Apr	Community	Public comment Period ends
05 May	Board	Board approves SO/AC Additional Budget requests (Board resolution)
25 May	Staff	Staff Report published
05 Jun (est.)	BFC	BFC reviews the final ICANN Budget and recommends Board approval
10 Jun (est.)	Staff	New Step: Publication to the community of the final FY18 OP & B intended for Board approval highlighting any changes from the Draft.
24 Jun (est.) ICANN 59	Board	Board approves final ICANN Budget

# Budget Working Group Takeaways

# Budget Working Group - Background

1

## Purpose

To engage with the Community on the planning process:

- Steps, timeline, funding and expense assumptions, community engagement, etc.
- First working group held @ ICANN 52 in Singapore.

2

## Approach

- Interactive discussion with constructive input, comments, criticism, proposals, etc.
- Open format with Q&A throughout.

# Budget Working Group – ICANN 58

1

## Purpose

Community feedback and input on:

- Draft FY18 OP&B and 5-Yr Op Plan Update
- FY19 Planning Process
- Increasing community involvement in planning process

2

## Outcomes

- Good feedback on the draft FY18 OP&B, particularly funding, level of detail in the plan, etc.
- Proposed FY19 planning process with a list of recommendations to ICANN
- Deepened mutual understanding and engagement between community and staff and guidance on increasing engagement

# Budget Working Group - FY19 Planning Process

- **FY19 and future planning cycles will require more time and resources due to:**
  - EC creates responsibility for community to get better understanding on processes where they can exercise powers.
  - Board's area of focus: "improve financial discipline"
- **Planning cycles will cross fiscal years and overlap**
- **Opportunities:**
  - Multiyear planning - A multi-year Budget that contains detailed expenditures and anticipated funding for more than one budgetary period (fiscal year).
  - Plan to expand the focus on Operating Plan: describe what we do, how it fits with the mission, engage and interact with community on priorities.

## How can we improve and expand community engagement?

### We want to achieve:

- A broader and more diverse base of constituents who are knowledgeable about and involved in the planning process
- Engagement with the next generation of community members to share information, experiences and expertise about planning

### Opportunities:

- Marketing/ recruitment strategy (SO/ACs, Newcomers, Fellows, etc.)
- Frequency, timing, forums, content - poll participants

### Considerations/Potential Challenges:

- stretched resources,
- learning curve for new participants,
- lack of understanding of why participation is important.



# Empowered Community - Caretaker Budget/Budget Veto

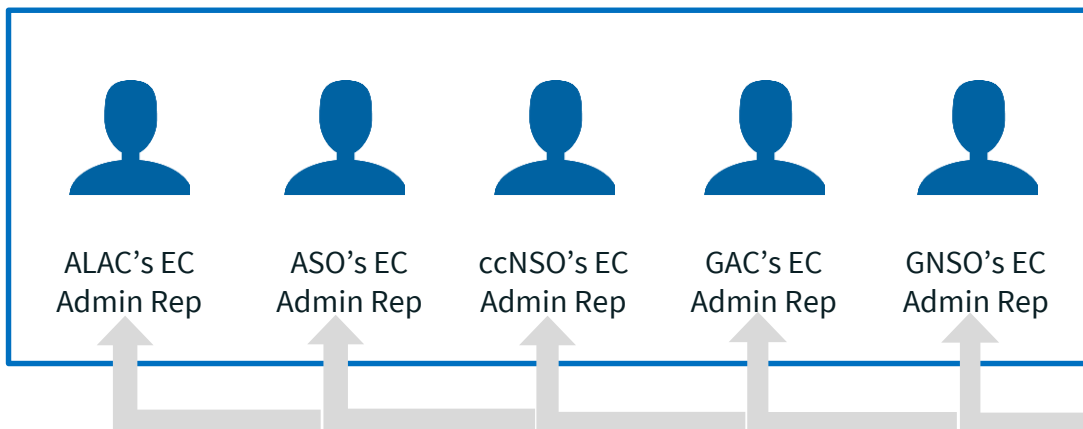
# Overview of EC and EC Administration

## Empowered Community (“EC”)



In representing a Decisional Participant on the EC Administration, the individual representative acts solely as directed by the represented Decisional Participant and in accordance with processes developed by such Decisional Participant.

## Empowered Community Administration



In representing the EC Administration, the representatives act as required for the EC to follow the applicable procedures to exercise its rights.

# ICANN and IANA Budget Rejection Action Procedures

## Rejection Action Board Notice

ICANN Board approves the ICANN and IANA budgets.

ICANN Secretary sends Rejection Action Board Notice to EC Admin and Decisional Participants.

## Petition Period – 21 days

In accordance with procedures of Decisional Participant, an individual may submit a petition.

Decisional Participant decides whether to accept petition. If accept, notify EC Admin and ICANN Secretary.

## Support Period (7 days)

Petitioning Decisional Participant contacts EC Admin and other Decisional Participants to determine whether any other Decisional Participants support petition. If at least one other Decisional Participant supports, notify EC Admin and ICANN Secretary.

## Community Forum Period – 21 days

EC Admin directs ICANN org to convene Community Forum (may also request to hold conference call prior to Community Forum).

ICANN org schedules conference call (if requested) and Community Forum.  
ICANN org, SOs/ACs (including Decisional Participants) submit written views/questions to EC Admin with copy to ICANN Secretary.

EC Admin moderates conference call (if scheduled) and Community Forum. ICANN org staff and Board Directors attend to answer questions.

## Decision Period – 21 days

Decisional Participants decide whether to (i) support petition; (ii) reject petition; (iii) abstain, and notify EC Admin with copy to ICANN Secretary.

## EC Admin Notice – 24 hours

EC Admin tallies decisions from Decisional Participants. If 4 support and no more than 1 reject, send ICANN Secretary EC Approval Notice. If approval threshold not met, send ICANN Secretary Approval Process Termination Notice.

# How to Get Involved



## Thank You and Questions

Email: [controller@icann.org](mailto:controller@icann.org)



### Public Comment

[icann.org/public-comments](https://icann.org/public-comments)

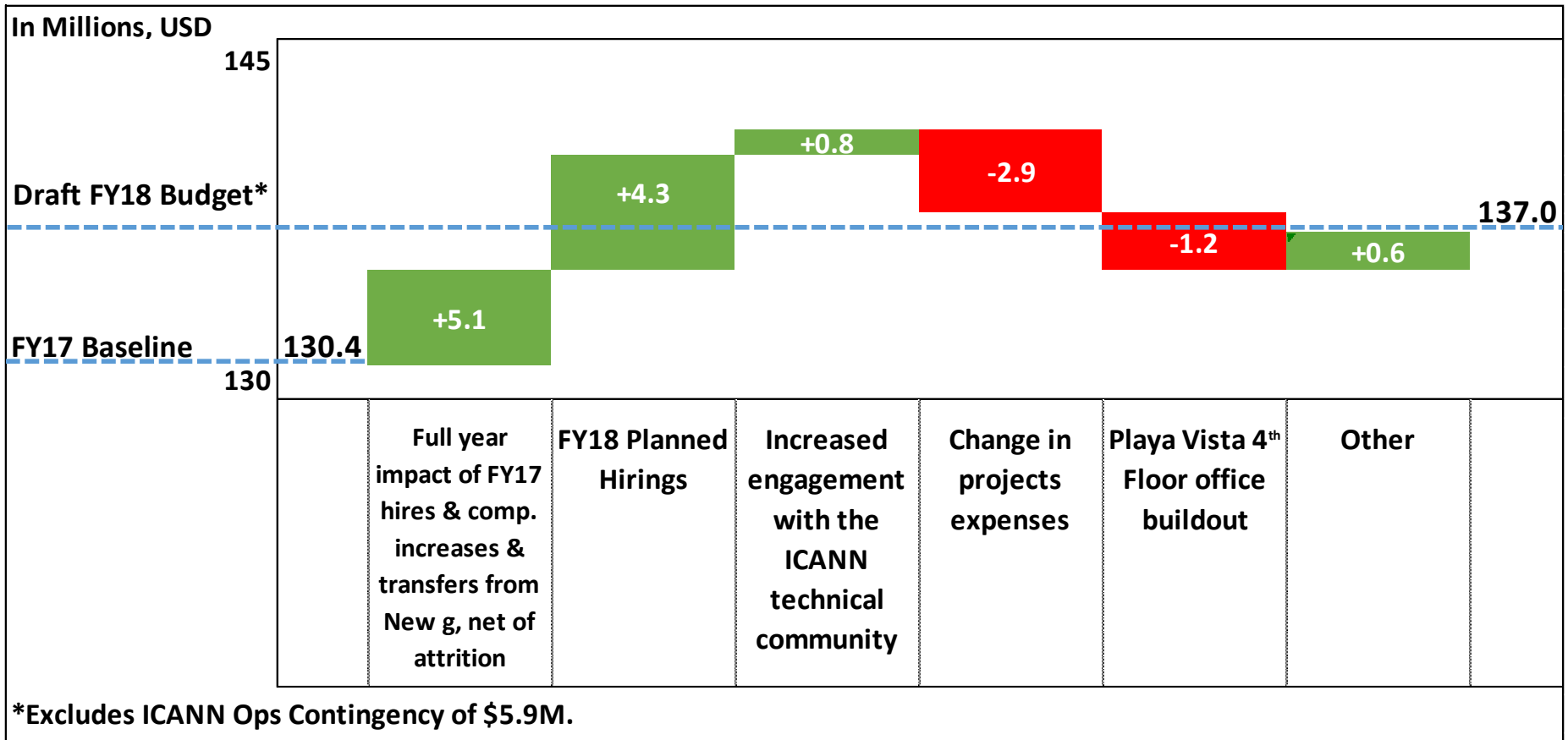


### Community Finance Email List

Subscribe!

# Appendix

# 4.5.1. ICANN Ops Expenses Overview (2 of 2)



## 4.5.2. ICANN Ops Draft FY18 Headcount

Executive Group	in Millions, USD		FY18 Draft Budget <sup>(1)</sup>		FY17 Forecast <sup>(2)</sup>		Increase/(Decrease)			
	EOP Hdct	Avg Hdct	EOP Hdct	Avg Hdct	EOY Hdct	%	Avg Hdct	%		
DNS, GDD, IANA	99.0	98.5	88	72.5	11	13%	26.0	36%		
Operations	17.0	17.0	17	9.9	-	0%	7.1	72%		
Strategic Communications	26.0	26.0	26	25.2	-	0%	0.8	3%		
Finance & Procurement and ERM	20.0	20.0	20	15.8	-	0%	4.2	26%		
Technical Functions	19.0	18.0	17	14.6	2	12%	3.4	24%		
GSE, Meetings Ops, DPRD	48.0	48.0	46	43.9	2	4%	4.1	9%		
Contr. Compliance & Consumer Safeguards	29.0	29.0	26	26.2	3	12%	2.8	10%		
Governance Support	20.0	19.0	17	16.2	3	18%	2.8	17%		
Governmental & IGOs										
Engagement	8.0	8.0	7	7.0	1	14%	1.0	14%		
Executive	3.0	3.0	3	3.0	-	0%	-	0%		
Policy Dev Support and SO/AC										
Engagement	35.0	34.9	34	30.4	1	3%	4.5	15%		
IT	66.0	66.0	61	59.9	5	8%	6.1	10%		
Global Human Resources & Admin	22.0	21.7	21	19.6	1	5%	2.1	11%		
MSSI	17.0	17.0	17	12.9	-	0%	4.1	31%		
Ombudsman	1.0	1.0	1	1.0	-	0%	-	0%		
New gTLD Allocations & Corporate (includes attrition)	(13.3)	(13.3)	-	-	(13)	0%	(13.3)	0%		
	<b>417</b>	<b>413.8</b>	<b>401</b>	<b>358.2</b>	<b>16</b>	<b>4%</b>	<b>55.6</b>	<b>16%</b>		

In millions, USD