

Contents

<i>Paper</i>	<i>Page</i>
NZRS Statement of Directions and Goals	3
Planning 4: Draft Goals, Transformations & Areas of Work	18
Planning 6: Second Draft 2013/14 Budget	24
Strategic Partnership proposed	32

(NZRS) Subsidiary Statement of Direction and Goals



Statement of Direction and Goals

DRAFT

(incorporating strategy, key performance indicators
and 3-year budgets)

for the 3 Years
2013 - 2014 to 2015 - 2016

March 2013



NZRS Statement of Direction and Goals

Contents

INTRODUCTION	3
THE CHANGED NZRS OPERATING ENVIRONMENT	3
NZRS VISION, MISSION AND VALUES	7
STRATEGIC GOALS	7
KEY PRIORITIES	8
KEY PERFORMANCE INDICATORS AND BUDGET ASSUMPTIONS.....	10
APPENDIX 1 - BUDGETS FOR THE 3 YEARS TO 31ST MARCH 2016	12



Introduction

This NZRS Statement of Direction and Goals has been prepared under the Planning and Reporting framework adopted by InternetNZ Council following the 2007 InternetNZ Structural Review. That framework provides for this Statement of Direction and Goals to include strategic direction, key performance indicators and 3-year budgets.

This Statement of Direction and Goals incorporates the expectations set out by InternetNZ in its Statement of Expectations.

Recognising the current point in our budget cycle, we should note that this Statement of Direction and Goals is draft, and the budget in particular may change, taking into account the following factors:

- Our forecast for domain name growth.
- InternetNZ's decision on the joint DNCL-NZRS Domain name fee recommendation
- Any adjustments required to reflect major variances from forecast financial performance for the balance of 2012 - 2013 financial year, especially where they have a material impact on the assumptions underlying the budget for the 2013 - 2014 year
- Any decision on a business development opportunity that assigns a role to NZRS.

We will provide to InternetNZ as shareholder, our final Statement of Direction and Goals, incorporating any changes arising from the above factors, in May 2013.

The Changed NZRS Operating Environment

The environment in which we operate is changing across a raft of fronts and our strategy for the coming year reflects that. There are several key factors that drive our strategy:

Economic climate

The global economic climate continues to be very volatile with little scope for accurately predicting the future. However the indicators for NZ are currently good and attempts to restart the housing market have worked and may indicate a few years of growth before any serious attempt is made to tackle household and government debt.

Impact of new gTLDs

We have identified a number of competing scenarios for how new gTLDs will affect nz:

1. Left of the dot matters. Increased availability of TLDs leads to a levelling off of .nz growth as people get the left hand side they want in a TLD that is new to them. For example, a company called that sells double glazing but has missed out on doubleglazing.co.nz might register doubleglazing.home or doubleglazing.eco as the 'doubleglazing' part of the domain name is more important to them than the TLD.
2. Right of the dot matters. .nz becomes a premium brand in an otherwise commoditised market where too much choice puts people off.
3. .nz rides the wave. New TLDs means an increased awareness of domain names leading the overall market to grow and .nz to grow along with it.



-
4. .nz encounters stiff competition. New TLD promotions dominate advertising and registrar shelves and .nz is forced to compete in a very different market.

In addition to these undecided scenarios there are some outcomes that appear very likely:

- There will be lots of noise in the press and lots of campaigns by new TLDs. Some TLDs will be driven to advertise directly rather than rely on registrars, particularly if they will also be the sole registrar for the TLD.
- The variety of the way that domains are sold will increase. Some TLDs will have dynamic pricing (similar to license plates) direct from the registry, others will include the use of a specific website structure, mandated by the registry.

These developments are likely to lead, over time, to a change in registrant perceptions of how the domain name market operates and what the possible ways of using a domain name are.

Distribution model

Research shows that our channel includes thousands of resellers of our 80+ accredited registrars. This is many more than we had estimated previously. Many resellers act as trusted advisers to registrants, helping them to identify the right domain name. They also come in all forms from individual web designers to large law firms. Our channel management approach will include these resellers as well as the registrars for it to be as effective as possible.

International peers

The ccTLD community remains fairly stratified. At the top are the largest ccTLDs with a large and professional organisation operating the registry and a mix of regulatory arrangements. Just below them are the smaller but equally professional ccTLDs such as .nz, though with fewer resources they are unable to cover the same range of organisational functions as the larger ccTLDs (for example - a technical research team). Then there are the many smaller registries with sound commercial enterprises but a significantly underdeveloped policy and regulatory framework. And finally there are those ccTLDs that are still run as volunteer efforts or without professional oversight.

There are a number of developments that are changing this landscape:

- Many ccTLDs have an interest in new gTLDs blurring the previously clear distinctions between types of TLD. The impact on global TLD governance is yet to be felt.
- ICANN has a new, professional and capable CEO with a team to match. Many of the difficult or even previously intractable problems are being urgently addressed.
- Many ccTLDs have responded to the advent of new gTLDs by employing marketing staff and developing promotional programmes. This provides increased opportunities for knowledge sharing.
- The market of suppliers to TLDs has professionalised and grown rapidly to take advantage of the new gTLD programme. An increasing number of ccTLDs are taking advantage of this and outsourcing part of their operations or offering services to other TLDs.

Best practice in domain name registries

The domain name industry is a maturing market that has yet to develop formal benchmarks of quality assurance that can independently test for compliance with best practice. We have begun to take the lead within our industry to develop agreement on best practice and



benchmarking, while in the interim relying on regular contact with international peers to enable informal assessment.

The implementation of DNSSEC marked another milestone in the development of a best practice registry. We have had the benefit of learning from the tribulations of early adopters while also being at the forefront of innovation ourselves. Our DNSSEC Practice Statement was ground breaking for a registry of our size and the consultation that went into it was world leading for any registry of any size.

Registry innovation

NZRS is one of a small group of registries to implement a "big data" system to analyse the increasingly large volumes of traffic to our servers that we capture. Our systems see unique data and from an exceptionally wide number of sources in comparison to our size. This provides us with notable opportunities to increase our data capture and analysis and to mix this with other data sets to provide entirely new insights and services.

Cloud services

We continue to see a trend of businesses and individuals moving away from local IT equipment to cloud services. Our analysis of this trend and the impact on domain names is:

- The way people inside enterprises buy domain names is changing as less internal IT kit means less internal IT staff and so the trusted third parties that non-technical people use for advice when registering domain names are less likely to be found inside the enterprise.
- The nature of the customers is changing. The number of large cloud platforms is unlikely to be numerous as the requirements of datacentre power/cooling and uninterruptable Internet become a hurdle that cuts out smaller operators. Small cloud platforms will continue to operate but are increasingly likely to service niche markets only. It will become increasingly important for us to ensure that the larger cloud providers sell .nz as part of their service portfolio.

Social networking

This is increasingly becoming cloud services for the individual rather than a phenomenon in its own right. The implications for domain names are:

- Social networking has eliminated much of the demand for personal websites and so in turn reduced the chances of a surge in demand for domain names for naming personal sites.
- Portability and ownership of data do not seem to matter for social networking users and so domain names cannot be sold as part of a solution to this non-existent problem.
- Social networking is increasingly replacing email as a means of communication, which may have a detrimental impact on domain name sales.
- The huge danger is if a social networking site gets big enough that companies can operate entirely on that platform without any need for an external presence and so not need a domain name.

User experience

The IT industry as a whole is belatedly realising that a simple, consistent and tightly managed user experience can be far more profitable than providing people lots of choice.



We are likely to see many new TLDs offer a domain name as part of a consistent and tightly managed service. For example, if anyone were to bid for dotPigeon (which nobody has) then they might offer the domain name as part of a package that includes a standard web site that must be used to host the domain. This site would offer limited visual customisation but be fully geared up to serve the needs of pigeon fanciers offering a module for tracking racing times, a platform for third parties to sell special products such as high-performance feed and a trading/auction platform for those who specialise in breeding pigeons.

Offering an open, do-what-you-like TLD as we do may become a minority business model.

Apps

Increasingly apps are being used instead of web sites, particularly on mobile devices because they provide a better user experience. This move as it is currently unfolding is unlikely to have any adverse impact on domain names because:

- Developers need to support multiple app platforms and a website remains a good option for an overarching presence.
- Many apps now expect the Internet to be always-on and so access data remotely from a website rather than storing it locally. This also ensures that the data an app uses is always up to date and the same on all platforms and versions.
- In-app analytics remains weak, while the control of the app platform supplier is strong and so using a website backend provides app developers with better usage information while reducing the chance of app platform lock-in.

It is yet to be determined what role apps should play in the NZRS service offering.

NZ Internet Infrastructure

One of the most important parts of a national Internet infrastructure is the peering fabric - where and how the various ISPs interconnect and exchange data. NZ has Internet peering exchanges (IXPs) in most major cities but they are significantly less important for interconnectivity between ISPs and interconnection between ISPs is not ubiquitous or consistent.

The impact on us of the current situation is that it notably increases the number of name servers that we need to run in order to ensure consistent and responsive access to all ISPs. We also run the risk of being seen as favouring some ISPs over others if we do not cover the whole market equally. Rather than implement an excessive number of name servers, we do not distribute them in a balanced fashion, and run the risks identified above.

Other areas of lack are the public services that we rely on others providing, which either do not exist or are unreliable. Examples that we have had to provide for ourselves and the wider community include PGP (cryptography) key servers or NTP (network time) servers, which did exist but had reliability issues.

While providing these services for ourselves comes at greater cost than if we used a service provided by someone else, this cloud does have a silver lining because it is within our mission to make those services public even if it costs us slightly more in higher administration costs.



NZRS Vision, Mission and Values

Vision:

Excellence in registry management through superior service and the innovative application of technology.

Mission:

To provide robust, reliable registry services enabling people, entities and communities to access and gain increasing benefit from the internet.

The Board, management and staff are committed to the following set of values in the way NZRS operates:

- Ethical behaviour shown by professional practice with integrity
- Excellence in service and systems through continuous improvement, technological innovation and understanding the customers
- Independence of contribution, diversity of views
- Commitment to leadership, innovation and an outward focus
- Respect for fair competition in the market place through efficiency and transparency.

These values shape the culture of the company.

Strategic Goals

Our five strategic goals are to:

1. Deliver a world-class domain name service to registrars, their customers and all Internet users.
2. Deliver world-class registry services that continually improve.
3. Support InternetNZ through tangible contributions of income, governance and management resources, and expert knowledge.
4. Develop our services and technology within a long term evolutionary framework to meet the future needs of Internet users.
5. Deliver, in partnership with DNCL, a successful long-term strategy for .nz.



Key Priorities

NZRS continue to have a strong focus on its strategic goals by:

- Providing value for customers through a fast, robust, reliable, value for money service
- Respecting and protecting the rights and interests of the registrants
- Generating income to support the goals of the shareholder
- Utilising technology innovatively to provide a more cost effective, superior service
- Influencing the market and industry environment through partnerships with key stakeholders
- Keeping abreast of the market and industry developments in the technology sector to identify trends and growth opportunities
- Maintaining professional service-focused relationships.

Our annual cycle of external audit and review of systems, processes and entities remains core to our goals of world-class services. In this cycle we:

- Commission an annual wide-ranging sophisticated and independent security review and implement the recommendations. This includes the commissioning of real-world penetration tests across our production systems.
- Review all our internal policies and procedures, including the normal twice-yearly financial audits, against a wide range of sources of best practice.
- Conduct thorough risk reviews that feed directly into company strategy and budget planning cycle.
- Maintain a comprehensive disaster recovery plan that is both externally reviewed and tested in an annual exercise involving multiple suppliers and personnel.

Key work items for the coming year are aligned with our strategic goals:

1. *Deliver a world-class domain name service to registrars, their customers and all Internet users:*
 - Build on our new data analysis cluster to provide greater visibility to registrars and their registrants of their traffic and overall DNS presence.
 - Optimise the placement of .nz nameservers, which includes addressing issues of peering and international connectivity.
 - Support an increased adoption of DNSSEC by registrars while improving our own DNSSEC infrastructure.
2. *Deliver world-class registry services that continually improve.*
 - Finish the implementation of the SRS architectural review that future proofs the SRS.
 - Deliver a modernised web UI for registrars.
 - Relocate the SRS infrastructure to mitigate against risks, including future proofing for expected growth.



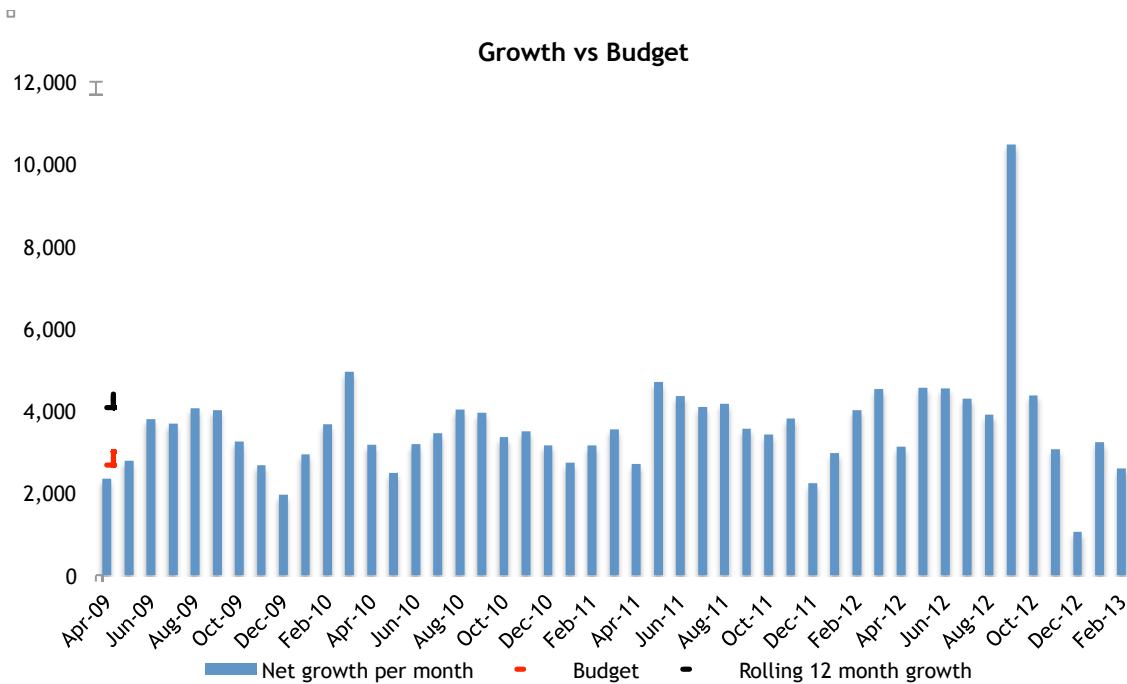
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- Work with DNCL on potential new .nz services for registrars that increase the protection of registrants.
 - Work, in conjunction with DNCL and international peers, on a maturity model for ccTLD registry operations.
 - Engage in the evolution of international technical standards for registries.
3. *Support InternetNZ through tangible contributions of income, governance and management resources, and expert knowledge:*
- Follow through the existing business development pipeline with identified opportunities.
 - Support increased cooperation and collaboration on shared strategic planning with InternetNZ and DNCL.
4. *Develop our services and technology within a long term evolutionary framework to meet the future needs of Internet users*
- Research how our data analysis cluster can be used to support InternetNZ policy outcomes and objects.
 - Conduct a minor refresh of our NTP service to address user requests for enhanced service.
 - Revisit third-party proposals for NZRS to become a gTLD registrar.
5. *Deliver, in partnership with DNCL, a successful long-term strategy for .nz:*
- Work with DNCL to create a full strategy for .nz.
 - Continue to develop and implement a channel management strategy for registrars.
 - Using research as the basis for decision making, create a marketing strategy for .nz and a strong brand to support this.
 - Actively seek out best practice at the international level and share .nz best practice.



Key Performance Indicators and Budget Assumptions

Domain name growth

Growth varies significantly from month to month and so is best understood using a rolling 12-month average, which is the measure we aim to track for budgeting purposes. The following chart shows growth against budget:



From analysis of current and past growth and the environmental factors detailed above, we forecast growth three years ahead, which is then incorporated into our budget. The following table shows our performance for the current and previous years and the forecast for the following three years:

Net growth	2011-2012	2012-2013 (Apr-Feb incl)	2013-2014	2014-2015	2015-2016
Monthly budget	3,000	3,000	3,575	3,575	3,575
Monthly actuals	3,708	4,106	-	-	-
Yearly total	44,505	45,167 (part)	42,900	42,900	42,900

The domain name fee is subject to a later recommendation to Council following the joint NZRS/DNCL fee setting process.

System availability

NZRS's key performance targets for SRS and DNS systems availability are based on the current Service Level Agreement (SLA) with DNCL, which contains a suite of availability and response



times metrics. The company has consistently met the key metrics under the SLA and is committing to do so across this planning period. NZRS’s key performance targets based on the main availability metrics under the SLA are:

- DNS availability: 100%
- SRS availability: 99.9%
- WHOIS availability: 99.9%

General assumptions

The following general assumptions are made for budgeting purposes:

- All financial amounts noted in budget exclude GST.
- The current dividend policy remains in place.
- NZRS pays no income tax as a consequence of our charitable status, which in turn is dependent on the charitable status of InternetNZ.
- NZRS continues to pay a management fee to Domain Name Commission Ltd.

Financial key performance indicators

NZRS’s financial performance indicators relate to each year’s domain name fee revenue, net profit after tax, dividend to InternetNZ, retained earnings, capital expenditure and liquidity ratio maintenance. These are shown in the table below:

\$’000s	Revised Budget 2012 - 2013	Budget 2013 - 2014	Budget 2014 - 2015	Budget 2015 - 2016
Domain name fee revenue	7,701	8,291	8,913	9,541
Other income	301	320	354	394
DNCL fee	1,411	1,500	1,545	1,591
Expenses (excl DNCL)	3,699	4,114	4,307	4,760
Net Profit	2,891	2,998	3,415	3,584
Dividend	(3,829)	(2,901)	(3,379)	(3,726)
Retained earnings	(937)	97	36	(142)
Capital expenditure	920	900	927	955
Liquidity ratio (31-Mar)	105%	105%	105%	106%



Appendix 1 - Budgets for the 3 Years to 31st March 2016

New Zealand Domain Name Registry Limited
BUDGETED STATEMENT OF FINANCIAL PERFORMANCE

	12 - 13	13 - 14	14 - 15	15 - 16	Total
	\$	\$	\$	\$	\$
INCOME	8,001,631	8,611,788	9,267,208	9,935,714	35,816,341
DIRECT COSTS	2,789,329	2,899,685	2,986,674	3,076,275	11,751,963
GROSS PROFIT	5,212,302	5,712,103	6,280,534	6,859,439	24,064,378
OVERHEADS	1,588,316	1,793,934	1,847,833	1,903,364	7,133,447
OTHER COSTS	732,542	920,300	1,017,399	1,372,182	4,042,423
OPERATING PROFIT	2,891,444	2,997,869	3,415,302	3,583,893	12,888,508
NET PROFIT	2,891,444	2,997,869	3,415,302	3,583,893	12,888,508
INCOME TAX	0	0	0	0	0
PROFIT AFTER TAX	2,891,444	2,997,869	3,415,302	3,583,893	12,888,508
DIVIDEND ACCRUAL	-3,828,920	-2,901,318	-3,378,948	-3,726,299	-13,835,485
RETAINED EARNINGS	-937,476	96,551	36,354	-142,406	-946,977
CUMULATIVE	-937,476	-840,925	-804,571	-946,977	-946,977



New Zealand Domain Name Registry Limited
BUDGETED STATEMENT OF FINANCIAL POSITION

	Mar-13	Mar-14	Mar-15	Mar-16
	\$	\$	\$	\$
FIXED ASSETS				
Software	2,408,143	2,918,143	3,444,343	3,987,229
Office Equipment	153,809	203,809	253,809	303,809
Computer Hardware	1,345,217	1,685,217	2,036,017	2,397,941
Accumulated Depreciation	-2,893,963	-3,804,123	-4,811,383	-6,173,425
	1,013,206	1,003,046	922,786	515,554
INTANGIBLE ASSETS				
TradeMarks and Brand	50,698	50,698	50,698	50,698
Accumulated Depreciation	-12,388	-22,528	-32,667	-42,807
	38,310	28,170	18,031	7,891
CURRENT ASSETS				
Bank	7,509,474	8,303,648	9,171,142	10,262,524
Trade Debtors	825,574	893,067	960,562	1,028,055
Prepayments	52,557	52,557	52,557	52,557
Interest Receivable	149,937	149,937	149,937	149,937
	8,537,542	9,399,209	10,334,198	11,493,073
CREDITORS DUE WITHIN ONE YEAR				
Trade Creditors	294,608	318,218	327,835	337,735
Other Creditors	98,598	118,443	132,640	146,726
Deferred Income	6,111,304	6,812,665	7,597,087	8,457,010
Holiday and Sick Leave Accrued	38,029	38,029	38,029	38,029
	6,542,539	7,287,355	8,095,591	8,979,500
NET CURRENT ASSETS	1,995,003	2,111,854	2,238,607	2,513,573
CREDITORS DUE AFTER ONE YEAR	0	0	0	0
TOTAL NET ASSETS	3,046,519	3,143,070	3,179,424	3,037,018
CAPITAL & RESERVES				
Share Capital	30,000	30,000	30,000	30,000
Reserves	3,016,519	3,113,070	3,149,424	3,007,018
	3,046,519	3,143,070	3,179,424	3,037,018
Liquidity (incl bus dev \$400k)	105%	105%	105%	106%
Surplus Cash over Required Liquidity	351,318	378,948	426,299	621,779



New Zealand Domain Name Registry Limited
BUDGETED CASHFLOW

	12 - 13	13 - 14	14 - 15	15 - 16	Total
	\$	\$	\$	\$	\$
RECEIPTS					
Income	9,633,355	10,274,810	11,084,730	11,894,656	42,887,551
Other Income	308,120	319,843	354,043	393,769	1,375,775
	9,941,475	10,594,653	11,438,773	12,288,425	44,263,326
PAYMENTS					
Invoiced Costs	250,973	0	0	0	250,973
Direct Costs	3,064,873	3,320,188	3,417,851	3,520,384	13,323,296
Overheads	1,614,043	1,903,335	1,973,794	2,033,111	7,524,283
Fixed Asset Purchases	966,000	1,029,250	1,063,468	1,095,365	4,154,083
Other Assets/Liab's Out	4,400,441	3,547,706	4,116,166	4,548,183	16,612,496
	10,296,330	9,800,479	10,571,279	11,197,043	41,865,131
NET CASH FLOW	-354,855	794,174	867,494	1,091,382	2,398,195
OPENING BANK	7,864,329	7,509,474	8,303,648	9,171,142	7,864,329
CLOSING BANK	7,509,474	8,303,648	9,171,142	10,262,524	10,262,524



Draft Goals, Transformations, & Areas of Work



Planning 4: Draft Goals, Transformations & Areas of Work

Author: Jordan Carter

Purpose: To propose Draft Goals, Transformations and Areas of Work for 2013/14

Date: 19 March 2013

Introduction

This paper sets out proposed high-level goals that InternetNZ should focus on, the transformations its work should bring about, and the areas of work it will focus on in the Business Plan.

The goals and transformations are the core of InternetNZ's strategy, while the areas of work are expanded on in the business plan and associated operating team workplans.

Goals are the high-level things InternetNZ wishes to achieve generally over the long term.

Transformations are changes (in existing states of affairs, existing relationships, etc) that InternetNZ wishes to bring about through its actions, over a variable term.

Areas of work are the areas that InternetNZ will focus on, in the coming year.

We have divided the transformations between those with an external focus and those with an internal focus.

For each element of work in the draft Business Plan, we note which goal it relates to.

This paper was finalised after three of the four member engagement sessions held in mid-March, and draws on insights and ideas shared there.

It remains a draft, and in need of further development.

Jordan Carter

Chief Executive (Acting)
19 March 2013

A. Goals

The following medium-term goals (2-3 years) are proposed for InternetNZ, noting that they will be on the table in the September 2013 planning process.

1. Be a guardian of .nz.
2. Protect and promote the open Internet through multi-stakeholder Internet governance (in New Zealand and globally).
3. Drive universal access to, and accessibility of, the Internet.
4. Catalyse New Zealanders' ability to make use of the social, cultural, economic and environmental gains that can arise through the Internet's use.
5. Encourage adoption of best practice and leading technology in New Zealand's Internet services and architecture.
6. Collect and disseminate information related to the Internet and inter-networking in New Zealand.
7. Be a lean, high-performing organisation with the resources and ideas to deliver on the vision and mission.
8. Expand the role of and engagement with members, and the reach of the organisation into new communities of interest aligned with the mission and vision.
9. Stronger relationships with strategic partners and the wider Internet ecosystem.

B. Transformations

The following high-level transformations are proposed for 2013/14. These are organised in relation to the goals set out above.

Goal 1: .nz

Details regarding .nz strategy (including the form in which it is presented) are the responsibility of the subsidiaries.

External

Current state	→	Desired state
Goal 2: Internet Governance		
Debate framed by govts, ITU	→	Debate framed by Internet stakeholders
NZ Govt an ally of open Internet	→	NZG a principled ally of open Internet
Shallow multi-stakeholderism	→	Embedded multi-stakeholderism
Relationships are individually owned	→	Relationships are organisationally owned
Goal 3: Access to the Internet		
Growing take-up	→	Complete take-up
Patches of digital exclusion	→	Complete digital inclusion
Policy sometimes understands the Internet	→	Policy generally understands the Internet
Access regulation is telco-focused	→	Access regulation is Internet-focused
Goal 4: Catalyse gains from the Internet		
NZ is missing out on prospective gains	→	NZ is benefiting from more gains
Public services: use is variable	→	Public services: use is high and rising
Economic benefits unclear	→	Economic benefits widely understood
No particular sectoral focus	→	Choose some sectors for focus
Goal 5: Best Internet practice & technologies		
IPv6 adoption satisfactory	→	IPv6 adoption good
Best practices poorly shared	→	Best practices widely adopted
UFB / RBI architecture telecommunications-led	→	UFB / RBI architecture Internet-led
Technical ecosystem partly developed	→	Technical ecosystem well-supported
Goal 6: Information sharing		
Information about the NZ Internet is dispersed and hard to find	→	Information about the NZ Internet is available through InternetNZ
InternetNZ stances on issues internally available	→	InternetNZ stances on issues publicly available and easily accessible
Information we provide is more often audience-specific	→	Information we provide is often audience-specific

Internal

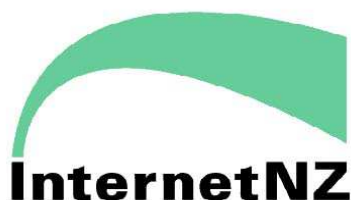
Current state	→	Desired state
Goal 7: Organisational		
Focus sometimes internal, detail	→	Focus mostly external, big picture
Tends towards reacting	→	Tends towards leadership
Single source of revenue	→	Multiple sources of revenue
Brand is not clear	→	Brand is clear
Charitable status is clear	→	Charitable status is clear
Goal 8: Members		
Unclear reasons to join	→	Clear reasons to join
Low understanding of member needs	→	Good understanding of member needs
Limited involvement with work	→	Wide involvement with work
Base of around 350 members	→	Base of more members
Low input into strategy	→	Greater input into strategy
Goal 9: Relationships		
Stakeholder engagement patchy	→	Stakeholder engagement comprehensive
Individually owned	→	Organisationally owned
Partly managed	→	Fully managed
Linked to projects and work	→	Linked to goals & transformations

C. Areas of work

There are six broad areas of work that are explored in the specific initiatives in the Business Plan:

1. **Access to the Internet** – a whole range of matters around expanding digital inclusion, and exploring notions of digital citizenship. Supporting the rollout of faster broadband Internet access is critical – investment, policy and regulation all feature.
2. **The Internet opportunity** – looking at how the use of the Internet can improve public services, business and social outcomes – understanding what the barriers are, and what InternetNZ could do as a catalyst to speed the adoption of Internet solutions.
3. **Naming and numbering** – critical interest is maintained in naming and numbering policy to advance InternetNZ's objects, outside the requirements of managing .nz.
4. **Internet governance** – the Internet governance system establishes the norms and decision-making procedures affecting critical decisions about the future of the Internet. Work is required within the Internet ecosystem, to defend the open Internet, and *on* that system, to help it to function better.
5. **Internet-aware law and policy** – understanding how the rule of law best operates in the Internet environment, and developing a clearer picture about how the law and government policies could change to make better use of the Internet (and seeking changes in line with this understanding).
6. **Technical excellence** – build on technical knowledge in InternetNZ to help shape the technical development of the Internet in the country to maximise efficiency and utility available from the network, especially given the transition to fibre broadband.

Second Draft 2013/14 Budget



Planning 6: Second Draft 2013/14 Budget

Author: Jordan Carter, Chief Executive (Acting)

Purpose of Paper: To set out the 2013/14 Budget for Council to adopt

Introduction

This paper outlines identified changes since the previous proposed Budget for 2013/14. Three changes are material: the revenue reported from NZRS, the reclassification of the \$40,000 of the international transition funding, and the reclassification of contract work on submissions into the work stream budget.

I. Overall financial position

The changes to the overall financial position still see InternetNZ in good financial health. This continues to provide for the context of expansion in the organisation's activities in 2013/14 and beyond.

It is expected that at 31 March 2013, the operating accounts will show a balance of around \$1.9m (this is a rough estimate and depends on a number of unknown expense items between now and balance date). In addition, group cash in excess of reserves will be around \$3.6m.

Given the proposed operational budgets in the next three years, a high level summary is:

Item	2013/14	2014/15	2015/16
Group cash in excess of reserves (static)	\$3.6m	\$3.6m	\$3.6m
IntNZ opening reserves	\$1.93m	\$1.46m	\$1.47m
Net Cash Flow Movement	-\$ 0.47m	\$0.01m	\$0.38m
IntNZ closing reserves	\$1.46m	\$1.47m	\$1.85m

The forecasts for income from NZRS have changed due to a miscommunication of the periods in which the revenue was projected to fall. This will have a negative impact of **\$0.31m** over the three year period on InternetNZ closing reserves.

2. Proposed Operational Budget

The proposed budget takes into account the 2013/14 strategic environment, overall approach, and current expenditure trends. It has been prepared initially on a status quo basis, building on the prior year's business plan and internal staff and contractor thinking to date on how to proceed in the period between permanent Chief Executives.

The proposed budget shows an operating allowance of \$3.402 million for 2013/14. This is an increase of 19% or \$540,000 compared with the 2012/13 operating allowance of \$2.862m. The increase is due to factors noted below.

	2012/13	2013/14	Change over last year budget	
	Approved	Proposed	Amount	Percentage
Community Investment	500	500	0	-
Workstreams/NetHui	620	682	62	10.0%
INZ Operations	1,525	1,589	64	4.2%
Council/Members	217	251	34	15.7%
International Transition		180	180	n/a
Major Event hosting		200	200	n/a
Total \$000s	2,862	3,402	540	18.9%

Notes regarding the proposed operating allowance:

- The increase is driven by the following major factors:
 - A new provision of \$200k each year for the hosting of a major event or events (in 2013/14, the ANZIAs and an associated Internet Governance event);
 - A new provision of \$180k in 2013/14 and 2014/15 for funding increased international presence to allow for transition in personnel;
 - In the INZ Operations line, increased provision of \$120k for salary and contractors, related to anticipated changes in the staffing profile and the expenses of the Chief Executive transition, less reclassification of \$62k of contractor expenses into the Workstreams/NetHui line (to properly align contractor expenses with the workstream-related work that they do); and
 - In the Workstreams/NetHui line, the above-mentioned \$62k reclassification of contractor costs from the INZ Operations line.
- Council/Members budget is net of interest earned on reserves.
- The INZ operations expenditure is net of re-charge for common services to NZRS and DNCL.
- All amounts are exclusive of GST.

3. Funding Operational Expenditure

The major source of funding operational expenditure is the dividend from NZRS. A payment of \$2.901 million is projected for 2013/14, as forecast by NZRS in March 2013 as part of the calculations preparing their draft Statement of Direction and Goals.

4. Capital Expenditure

The proposed capital budget is \$116,000 (current financial year: \$31,000). This is made up of computers (\$16,000) and web-site development (\$100,000).

5. Reserves

Based on projected operational expenditure (as set out in the Reserves Policy), the financial reserves for 2013/14 are to be maintained at a level of \$836,000 (current year: \$800,000).

6. Three year Profit & Loss projection

Appended is an updated three year profit & loss projection. The critical underlying assumptions are:

- steady operations leading to modest cost rise from inflation, and
- dividends from NZRS broadly in line with the amounts forecast by NZRS in the preparation of their 2013 Statement of Direction and Goals, with the adjustment to the expected dividends, compared to the previously presented paper.

7. Group Cash in excess of Reserves

Based on the 3 year Profit & Loss projections, and expected NZRS dividends:

- The “Group cash in excess of reserves” are held under a separate asset category within the balance sheet, and do not make part of any figure of operating funds.
- No additional funds have been identified within the current workings, as being available to be added to the “Group cash in excess of reserves” for the 2013/16 period.
- The holding of “Group cash in excess of reserves”, opening balance in Dec 2012 was \$3.9m. As noted in the third quarter financial report from the Chief Executive, this amount will be reduced by the reclassification of dividends in Jan 2013 of \$1.1m, and increased by \$800k as per Council’s past decision, bring the balance to \$3.6m at 31 March 2013.
- Excluding group cash, the lowest operating cash held by InternetNZ may (depending on a range of timing factors and other factors) be reached in June 2014, Oct 2014 and in June

2015, where cash of \$676,277, \$841,647 and \$689,479 respectively will be under reserves by 202k, 33k and 232k respectively, for a period of up to five weeks on all three occasions.

Note that these projections supersede those provided to the Council previously.

8. Community Investment Funding

This Council meeting will receive a separate paper regarding Community Investment Funding, which is available to Strategic Partners and through the grants funding process and funding rounds. At this stage, the Budget provision should remain the same as this year \$500,000.

Recommendations:

- I. That Council **approves** for 2013/14 this second draft operational budget of \$3.402 million and capital budget of \$116,000.

Jordan Carter

Chief Executive (Acting)

19 March 2013

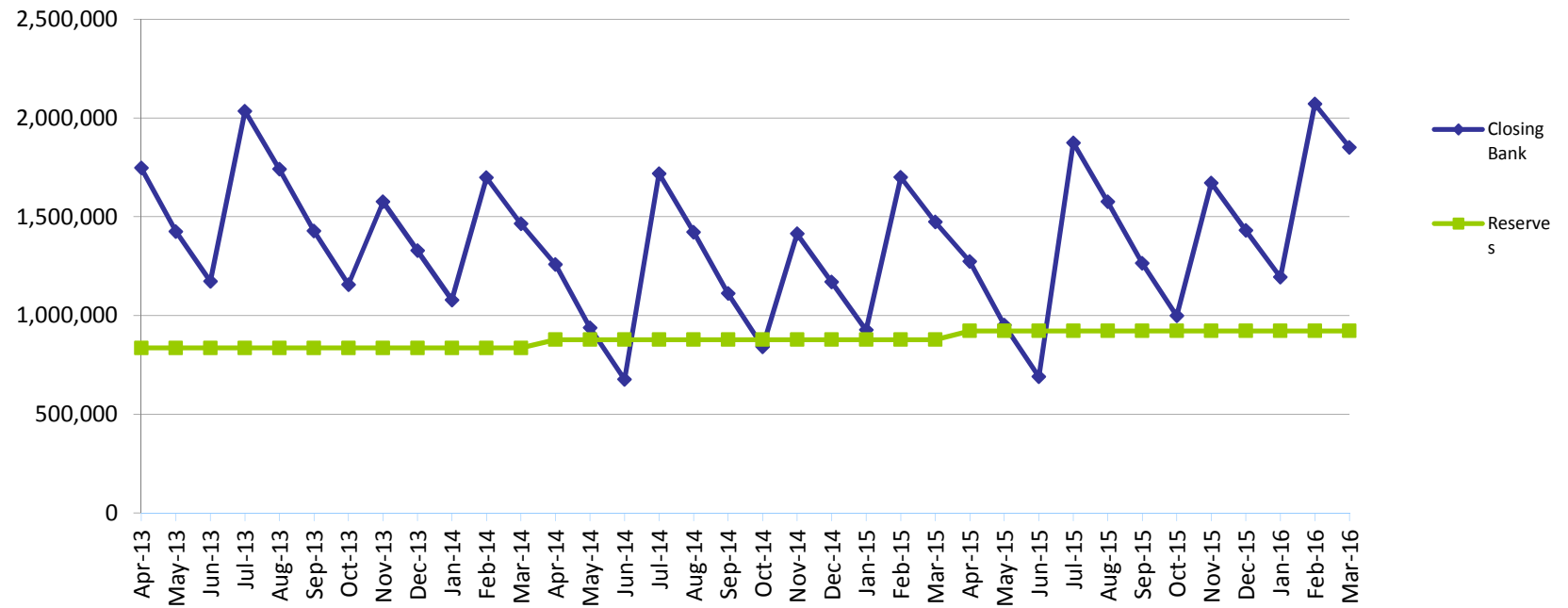
Attached: 3 year profit and loss forecast
 3 year cashflow forecast (chart)

InternetNZ: 3 year Profit & Loss Forecast

Financial Year	2013/14	2014/15	2015/16	Total
	\$	\$	\$	\$
OPERATING INCOME				
Memberships	9,000	9,450	9,923	28,373
Reimbursement of Shared Services	207,240	217,602	228,482	653,324
	216,240	227,052	238,405	681,697
INVESTMENT INCOME				
Dividends	2,901,318	3,378,948	3,726,299	10,006,565
Interest Received	39,000	40,950	42,998	122,948
TOTAL INCOME	3,156,558	3,646,950	4,007,701	10,811,209
REMUNERATION				
ACC Levies	3,610	3,791	3,980	11,382
Miscellaneous Staff Costs	4,120	4,326	4,542	12,988
Recruitment	26,300	27,615	28,996	82,911
Staff Training	16,500	17,325	18,191	52,016
Kiwisaver Employer Contribution	26,375	27,694	29,078	83,147
Casuals/Temps	15,450	16,223	17,034	48,706
Contractors	260,000	132,000	97,000	489,000
Contracted Technical Services	37,000	38,850	40,793	116,643
Salary & Wages	768,158	806,566	846,894	2,421,618
	1,157,513	1,074,389	1,086,508	3,318,410
OPERATING EXPENSES				
Accountancy Fees	30,900	32,445	34,067	97,412
Advertising & Marketing	13,390	14,060	14,762	42,212
Audit Fees	7,750	8,138	8,544	24,432
Bank Charges	1,648	1,730	1,817	5,195
Conferences	10,532	11,058	11,611	33,201
Consultants	16,480	17,304	18,169	51,953
Domain Names	700	735	772	2,207
General Office Expenses	50,000	52,500	55,125	157,625
Governance Training	12,360	12,978	13,627	38,965
Honoraria	132,165	138,773	145,712	416,650
Legal Fees	23,450	24,623	25,854	73,926
Meeting Costs	70,838	74,380	78,099	223,318
Postage & Couriers	4,120	4,326	4,542	12,988
Repairs & Maintenance	8,240	8,652	9,085	25,977
Repairs & Maintenance - Software	1,800	1,890	1,985	5,675
Printing & Stationery	19,000	19,950	20,948	59,898
Subscriptions	25,750	27,038	28,389	81,177
Telecommunications	63,000	66,150	69,458	198,608
Travel/Accom - International	120,450	126,473	132,796	379,719
Travel/Accom - National	75,302	79,067	83,020	237,390

Web Site Updates & Hosting	8,240	8,652	9,085	25,977
	696,115	730,921	767,467	2,194,503
OVERHEADS				
Cleaning	15,000	15,750	16,538	47,288
Electricity	17,700	18,585	19,514	55,799
Insurance	9,976	10,475	10,999	31,449
Rent Paid	149,100	156,555	164,383	470,038
Security	1,736	1,823	1,914	5,473
	193,512	203,188	213,347	610,047
OTHER COSTS				
Depreciation				
Computer Hardware	6,548	6,875	7,219	20,643
Furniture & Fittings	37,800	39,690	41,675	119,165
Software	3,888	4,082	4,287	12,257
Office Equipment	1,764	1,852	1,945	5,561
	50,000	52,500	55,125	157,625
OPERATING COSTS	2,097,140	2,060,997	2,122,447	6,280,585
SUB-TOTAL PROFIT	1,059,418	1,585,953	1,885,254	4,530,625
Workstream Budget	562,000	526,000	520,000	1,608,000
NetHui National/Regional	120,000	120,000	120,000	360,000
International Transtitions	180,000	180,000	110,000	470,000
ANZIA/ANZIGF (Int'l Event	200,000	200,000	200,000	600,000
Holding)	1,062,000	1,026,000	950,000	3,038,000
Sponsorship	500,000	500,000	500,000	1,500,000
Possible expansion Sponsorship	0	0	0	0
	500,000	500,000	500,000	1,500,000
TOTAL EXPENSES	3,659,140	3,586,997	3,572,447	10,818,585
PROFIT	-502,582	59,953	435,254	-7,375
Special Dividend Interest	123,000	129,150	135,608	387,758
NET PROFIT	-379,582	189,103	570,862	380,382
CUMULATIVE PROFIT	243,090	432,193	1,003,054	1,003,054
CASHFLOW Opening	1,942,727	1,464,027	1,473,573	1,942,727
Closing	1,464,027	1,473,573	1,851,286	1,851,286
				refer chart
RESERVES REQUIRED	836,000	877,800	921,690	

InternetNZ Cash Flow Forecast 2013-2016 (excluding special dividends)



Strategic Partnerships



Proposed Strategic Partnerships

Author: Jordan Carter & Ellen Strickland

Purpose of Paper: Propose Strategic Partnerships for 2013/14 for Council agreement

Introduction

This paper proposes three Strategic Partnerships for Council's consideration (with the 2020 Communications Trust, NetSafe and Creative Commons Aotearoa NZ), and updates Council on discussions with AUT related to the World Internet Project.

It sets out the process followed to develop draft Partnerships, the criteria the Partnerships have been tested against, and then the specifics (including proposed one-year funding levels) for each of the three proposed partners.

Process followed

Discussions with organisations with ongoing funding relationships, or discussion around partnerships, were at various stages of development at the time of the previous Council meeting in February 2013. Since that meeting, discussions have proceeded with a view to making recommendations for Strategic Partnership arrangements which are clear about the one-year period for any funding involved (pursuant to the review of Community Funding (hereinafter "the Review") kicked off by Council at the same meeting).

Recommended partnerships are outlined below for 2020 Communications Trust, NetSafe, and Creative Commons Aotearoa New Zealand, which were reached through dialogue with the organisation's representatives and InternetNZ Chief Executive and Collaboration and Community Lead, aligning the potential partnerships with a range of criteria. This process built on existing work done - both in writing and through conversations - sometimes over many months.

Our priority has been to develop a range of different approaches to Partnership and to use the 2013/14 year as a time to see what works best - for partners and for InternetNZ.

Progress with Science Media Centre was agreed in February as not sufficiently advanced for inclusion in this paper and will need to be considered anew following the Review.

InternetNZ's relationship with Auckland University of Technology's Institute for Discourse, Culture and Communication, which runs the World Internet Project New Zealand, is also briefly reported on in this paper, related to potentially advancing discussions on a partnership agreement for 2013-14.

The criteria

The following high-level criteria have been used to align proposed partnerships with InternetNZ's purpose as well as identify the foundations for and mechanisms of partnership. These are not criteria to choose who InternetNZ partners with - that framework is part of the Review. These are simply the criteria in the proposed Partnerships we have selected as most salient to highlight to Council to aid in deciding whether or not to proceed. The criteria are:

- **InternetNZ Objects and Workstreams:** Which InternetNZ objects the work of the organisation relates to and how the organisation's work fits in relation to our own work.
- **Capacity to deliver:** Performance on past deliverables, relationship with InternetNZ and current resources and anticipated work plan.
- **Other Partners:** Understanding and valuing other institutional and funding relationships, particularly those which are complementary to InternetNZ relationships.
- **Community links:** Valuing links to institutions and community which support the organisation's work and are aligned and potentially beneficial to InternetNZ and vice versa.
- **Agreed approach:** Details negotiated of relationship beyond funding including governance, operational relationships and reporting.

Strategic Partnership: 2020 Communications Trust

Progressed through emails and meetings with Laurence Zwimpfer and Laurence Millar to develop a strategic partnership proposal. Draft proposal taken to 2020 Trust board and agreed, as one year funding but an enduring relationship, to be reviewed late 2013/early 2014.

Criterion	Information
Object supported	2.9 To promote widely and generally available access to the Internet.
Capacity	Established.
Other partners	Government funding and relationships within communities and IT organisations.
Community links	Relationships with local communities.

Governance	Group to be formed (3 IntNZ Cncl, 3 2020 Trust).
Operational	Regular operational meetings.
Reporting	Quarterly reports to InternetNZ Council.

Funding recommended: \$125,000 for 2013-14

This funding will be core operational funding for 2020, which will facilitate the day to day and building of capacity of the organisation towards its programmes. This will be a deep partnership in terms of operational relationships, reporting and governance. It is an opportunity to explore a partnership relationship in which the funding is devoted to the recipient's core operations, in recognition of the fact that almost all of their current funding is project based. The desire is that by increasing the organisation's capacity, it can better discern how to achieve the goals shared in the Partnership framework.

Strategic Partnership: NetSafe

A series of email exchanges and meetings with Martin Cocker at NetSafe led to an agreed partnership proposal. NetSafe valued and welcomed the opportunity to set out the relationship in more detail, as a partnership beyond simply funding.

Criterion	Information
Object supported	2.4 To promote and conduct education and research related to the Internet and inter-networking. 2.8 To represent the common interests of the wider New Zealand Internet community both nationally and internationally.
Capacity	Track record of performance and profile as the expert organisation on Internet safety.
Other partners	Government and some private sector.
Community links	Education sector, security community, government.
Governance	No group intended.
Operational	Regular operational meetings and ongoing contact.
Reporting	Six-monthly reports to InternetNZ Council.

Funding recommended: \$125,000 for 2013-14

This funding will be core operational funding for NetSafe, which will facilitate the day to day operation as well as some of its programmes. This will be a close partnership in terms of operational relationships, reporting and governance. It is a further opportunity to explore a partnership relationship in which the funding is core operations, as noted above for 2020 and for the same reasons.

Strategic Partnership: Creative Commons Aotearoa NZ

A process of meetings and emails with Matt McGregor at CCANZ. Funding from central government for core operations has been renewed for one year, and so compared with earlier discussions there is no need to fund core operations. Therefore in this coming year, the partnership can support specific projects that increase the gains from CCANZ's framework, which is complementary of InternetNZ's work. Criteria assessed included:

Criterion	Information
Object supported	2.4 To promote and conduct education and research related to the Internet and inter-networking. 2.8 To represent the common interests of the wider New Zealand Internet community both nationally and internationally.
Capacity	Proven partner for NetHui and TPPA work.
Other partners	Royal Society of NZ hosts; funding from the Government.
Community links	Education, youth.
Governance	No group intended.
Operational	Quarterly operational meetings.
Reporting	Six-monthly reports to InternetNZ Council.

Funding recommended: \$20,000 for 2013-14

This funding relates specifically to project work capacity for open licensing workshops, events and resource development, as the core funding for CCANZ comes from another partner. This will be a more light-handed partnership in terms of reporting and governance, and an opportunity to explore a partnership relationship in which the funding is specifically not for core operations.

Future prospective partners: Institute for Discourse, Culture and Communication, Auckland University of Technology

Allan Bell, Director of the Institute, advised that they have received some good news regarding WIP funding: National Library has agreed to fund \$90k towards the 2013 survey. This is a reduction in funds from \$150k, but a success in the current financial environment after a great deal of work. AUT administration has also now offered to underwrite some of the internal costs of facilities and staffing. MSN, which has a global relationship with WIP, is still in discussions about contributing towards the project for 2013 round as well. There is however likely to be a shortfall and there is still a need for additional funding support in order for the Institute to undertake WIP 2013.

Jordan and Ellen then met with Philippa Smith and Charles Crothers regarding the World Internet Project 2013. The status and timeline of the project, as well as changes which are being implemented from feedback from Council and NetHui, including both methodological changes, to be online as well as phone, and changes to questions, including on technology assistance.

The ongoing relationship was discussed as well, including NetHui collaboration and Internet research more broadly, with a view to formalising a strategic partnership with InternetNZ. Discussions on a strategic partnership can be advanced including WIP project support for 2013 as necessary, dependant on outcomes of WIP funding negotiations with the private sector.

Recommendations

1. THAT this paper be received.
2. THAT the Chief Executive be authorised to execute strategic partnership agreements with NetSafe, the 2020 Communications Trust, and Creative Commons Aotearoa NZ.
3. THAT Council approves one year funding packages as part of the strategic partnerships for the following sums:

2020 - \$125,000
NetSafe - \$125,000
Creative Commons - \$20,000
4. THAT the Chief Executive be granted authority to negotiate a strategic partnership with AUT Institute of Discourse, Culture and Communication and to explore the need for a one-year funding package to help with the delivery of the World Internet Project New Zealand survey in 2013.

Jordan Carter, Ellen Strickland

19 March 2013