

ICANN's FY19 Operating Plan and Budget
ccNSO SOPC feedback
5th March 2018

Introduction

The ccNSO Strategic and Operational Planning Committee (SOPC) welcomes the opportunity to comment on ICANN's FY19 Operating Plan and Budget.

The SOP working group was created at the Cairo ICANN meeting in November 2008. The working group became a Committee in November 2017. The goal of the Committee remains the same: to coordinate, facilitate, and increase the participation of ccTLD managers in ICANN's strategic and operational, planning and budgetary processes.

According to the revised Charter published on 1st November 2017 (<https://ccnso.icann.org/sites/default/files/field-attached/sopc-charter-01nov17-en.pdf>) the Committee may, as part of its activities, take a position and/or provide input on the public comments forum, and then relate back to ICANN or other supporting organisations and advisory WGs on its own behalf. The views expressed, therefore, are not necessarily those of the ccNSO (Council and membership) or the ccTLD community at large. Membership of the Committee is open to all ccTLD managers (members and non-members of the ccNSO).

SOP Committee members

- Giovanni Seppia, .eu (Chair)
- Wafa Dahmani, .tn
- Irina Danelia, .ru
- Stephen Deerhake
- Philip Du Bois, .be
- Russell Haworth, .uk
- Landry Kouadio Assi, .ci
- Roelof Meijer, .nl
- Rosalia Morales, .cr
- Andreas Musielak, .de
- Abdalla Omari, .ke
- Barrack Otieno, AfTLD
- Barbara Povše, .si
- Pablo Rodriguez, .pr
- Leonid Todorov, APTLD
- Mary Uduma, .ng
- Michael Vassilakis, .gr
- Liz Williams, .au

Executive summary

- The ccNSO-SOPC welcomes the acknowledgement made by ICANN CEO that 'ICANN org could have done better in its long-term financial planning'.
- The SOPC acknowledges that ICANN has 'improved the distinction between projects that are for recurring activities and projects that deliver new tools and improvements to existing activities'. This is a request that this Committee has put forward for many years.
- However, the new Plan format does not help the reader as information relating to the various goals, projects and activities are scattered across the various Documents that are also drafted inconsistently. Metrics and accountability indicators should be included in Document 4. The evaluation of past activities/projects that might support decisions and planning of the FY19 Plan should be also in the Document.

- In terms of funding estimates, the SOPC recommends ICANN be more prudent when it comes to TLD growth estimates as the market is showing clear trends of decrease registrations, especially in the new gTLD environment.
- The SOPC fails to see the rationale behind the budget constraints vis-a-vis the further increase in headcount. It would be advisable to use the existing HR capacity more rationally rather than to go for new hires.
- Funds allocated to various engagement activities seem to be unbalanced.

Document 1 – FY19 Budget Introduction and Highlights

The SOPC welcomes the ICANN CEO's acknowledgement in the preamble to Document 1 that 'ICANN org could have done better in its long-term financial planning' – an issue that this Committee has been highlighting for over five years, and that 'it is for the multistakeholder community to decide not just what work gets done and when, but also to help keep expenses within ICANN's means and focused on our mission'. We further hope that his remark - 'ICANN org exists to support the community's work and ICANN's mission' – is well-shared around ICANN as an organisation.

Recently, ICANN has cut its annual budget by \$5 million, because the estimated revenues from the new gTLD programme were too optimistic. At the same time, the ICANN Board Chair states in his note in the preamble to Document 1 that 'funding is stabilising for the foreseeable future at a level of US\$135 million to US\$140 million per fiscal year'. The budget cuts do not come as a surprise to this Committee, as for a few years we have detected clear trends towards lower domain name transactions.

The SOPC agrees with the Chair of the ICANN Board that 'ICANN org will not be able to undertake new projects that have not been planned for in the draft FY19 Budget' unless they are of high importance to the community and the necessary funds become available.

With reference to the planned payroll increase, we are quite puzzled to see both that ICANN keeps hiring in times of need without a clear evidence of the necessity of the extra staff and that ICANN foresees a raise in salaries that is considerably higher than current averages in many countries in which ICANN has offices.

Headcount is expected to level out at about 425, up from the current 400, by the end of FY19 (personnel costs are going up by 11% due to a combination of new hires and pay rises, year-to-year basis). We fail to see a detailed rationale for such an increase. Furthermore, the annual pay rise seems to stay in effect for FY19 and further to FY 20 (although halved from 4% to 2%). The SOPC – as well as many other community stakeholders – seem to agree that ICANN staff are paid well enough, and sometimes even above market average. Considering the current DNS industry trends and forecasts, tougher action to further limit or even abolish the annual rise in compensation would send a strong positive signal to the community. Furthermore, taking into account the higher social charges in certain countries where ICANN has regional offices, ICANN may look into the option of hiring staff where social charges are lower and eventually, relocating staff to achieve further savings without increasing headcount.

Likewise, the costs of professional services seem to remain quite high in both absolute and relative terms over the past fiscal years. We welcome the effort to optimise these. However, we firmly believe that further actions could be planned to rely more on in-house services rather than opting for external consultants, as ICANN staff have the capacity to deal with most of the matters pertaining to the DNS community. Moreover, in order to increase transparency we would recommend a public list of contractors (if any) for the various projects/actions and the amounts spent on them. Another option to further increase transparency might be to establish a panel system where contractors in the new FY are asked to bid to be placed on a panel of approved suppliers that the community then knows. This will help the community to assess the

impact of expenditure on certain initiatives such as Internet Governance and other outreach activities.

In terms of ICANN's investment policy, while this suggests a conservative approach, the return should be fairly significant nonetheless. Is there any clarification as to how interest is used, and whether or not it is accounted for in the Budget?

Regarding the funding forecast, we would like to stress the following:

- The FY18 funding forecast US\$135 is lower than the FY18 adopted budget (US\$143), and equal to FY17 actuals (US\$135). There is no explanation and no figures showing which sources of funding in FY18 are lower than expected.
- The funding for FY19 is projected to grow by US\$3 (vs FY18 forecast) due to the registry transaction fee (US\$2) and registrar transaction fee (US\$2). All growth is associated with the new gTLD registry and registrar transaction fees. This should be explained and better justified, and/or a more conservative and prudent approach should be taken. Moreover and more importantly, the draft FY19 Budget should not assume an increase in funding (US\$3 million more than 2018) and cash expenses that are equal to the funding. The experience of FY18 should serve as an example of the implications and issues that arise when budgets need to be readjusted once the money has already been assigned; even more important is the realisation that the funding coming from domain sales is not increasing as the budget implies. The adopted budget for FY18 needed to be adjusted. It makes no sense to base the FY19 Budget on the same assumptions as the FY18 budget. It needs to reflect the reality of the current market and ICANN's finances.

We believe that the new gTLDs have reached the peak of their growth. No assumptions should be made that these sales will somehow increase, and there should be an effort to decrease costs instead of increasing them as shown in the budget.

- To follow up the remarks made by the ICANN CEO - 'ICANN org could have done better in its long-term financial planning'- it would be desirable for ICANN org to compare and assess the budget estimates and actuals of the past five years, in order to present a long-term budget plan to the community so that the community can better 'decide not just what work gets done and when, but also to help keep expenses within ICANN's means and focused on our mission'.

Document 2 – FY19 Total ICANN Budget

With reference to Document 2, the FY19 Total ICANN Budget, we think that the document shows a fairly well-articulated and presented breakdown of projected reductions across individual budget items. However, we still would like to point out the following issues:

- Cuts and increases across specific items raise specific questions:
 - With the costs of Global Stakeholder Engagement up by 1%, and engagement with governments by 10%, the significant imbalance in favour of the latter requires further explanation, particularly in light of the 1% cut in engagement with SOs/ACs.
 - As Engagement to a large extent implies communication (in fact it is entirely about communication), it is not clear why Strategic Communications costs are projected to grow by 7%. It seems logical to align these activities to benefit from the ensuing synergy, thereby ensuring significant economies of scale.
 - The above also applies to the Multistakeholder Strategy & Strategic Initiatives item that is poised to add 8% in 2019.
- Costs associated with remuneration and travel of Board members have recently fuelled a number of concerns. While not explicitly reflected in the Budget, it would be useful and appropriate to provide certain clarifications and aggregates, which should enhance the degree of accountability of ICANN org.
- Within the *Section Data privacy-related FY19 implementation activities*, no funding for GDPR-related initiatives are planned in FY19. Are these likely to be a part of the

consultancy costs? If not, ICANN should consider a separate budget for the implementation and possible follow-ups.

- Last but not least, we identified a minor inconsistency. *Section 2.5.2 Reductions to Engagement and Community Support of Document 2*, Fellows/Next Gen travel support (page 22), the NextGen programme number of seats is listed as being 15 seats in the text, and 20 in the table. Which figure is correct?

Document 4 – FY19 Operating Plan

With reference to Document 4, FY19 Operating Plan, we would like to highlight the following issues:

- We acknowledge that ICANN has ‘improved the distinction between projects that are for recurring activities and projects that deliver new tools and improvements to existing activities’. This is a request that this working group has put forward for many years.
- *Modules*. We fail to see the long-term planning for any of the so-called “Modules” in Document 4 which would be recommendable to introduce. The Document 4 contains a high-level description of the Modules and their “recurring activities”. However, the Modules are not presented in a consistent way with some of them having “risk and opportunities” section.
- *Expected Changes from FY18 to FY19*: we commend ICANN on its effort to present the information related to projects in a clearer and more detailed manner, particularly the way the expected changes from one FY to the next are presented. This helps any reader to better understand the new scope and expectations in the proposed Budget.
- *Metrics*: as the objectives and goals for each module are detailed and explained, it would be very valuable to see the metrics right away (including the Accountability Indicators). We noticed that the metrics have been included in a different document. In order to create a holistic view and facilitate a complete understanding of the proposed project, the metrics are key to transparency and proper project management. The goals do not mean much without knowing the expected tangible results. Therefore, these elements should be included in one document only.
- *Engagement Activities, Hiring, and GSE Teams*: while we understand the measures that ICANN will take to recoup the lower funding, we fail to understand the increase in ICANN staff and its costs. In reality, ICANN is still hiring under the ‘engagement’ umbrella when there are already teams working for each region, and in some cases we believe those teams are overstaffed.
- The “*Global Stakeholder Engagement*” section appears to be confused and lacks clear and quantifiable goals that should be together with the actions. On page 13, it reads “GE will be following the ongoing implementation of the GDPR and the navigation of the potentially sensitive international arena”, could you clarify the meaning of the second part of such sentence?
- *Direct Community Activity Support, Budget Travel Cuts*: we noticed the reduction in some ccNSO-funded seats where others remained unchanged. This travel cut is confusing, since there is a push for the ccNSO community to contribute more to ICANN funding on one hand, and on the other the funded seats are being reduced. Moreover, in light of long-term planning, it would be worth explaining to the community whether the cut in travel seats is permanent, or an adjustment solely for the FY19 Budget due to the location of the meetings.
- Still with reference to the planned cuts in travel funding, and more specifically to the reduced “seats” of the Fellowship and NextGen programme, the ccNSO-SOPC would like to understand if these cuts are relating to an in-depth evaluation of these two programmes – as we suggested since several years.
- *Encourage Engagement with the Existing Internet Governance Ecosystem at National, Regional, and International Levels*: the equivalent of 2.6 full-time personnel are assigned to this project, and it has been allocated a small budget and little time. Taking into account

that ICANN is the key leader in promoting the multistakeholder model, it seems that not enough resources, time, and energy have been allocated to one of the main objectives of the organisation. The same comment applies to Sections 2, 4.1, and 4.3.

- On page 30 priorities for Module 3 are under “major assumptions”. The same is for Module 4 and 5. We would appreciate some clarification to understand why priorities fall under assumptions.
- On page 32, under “Projects and Activities not included in the budget submission”, the third point is about GDPR and it reads “Both the internal and external tracks of work could result in outcomes that require unbudgeted dollars and other resources from GDD to implement. Timeframe is between now and May 2018, with possible work required after May 2018”. Could we have the meaning of such paragraph clarified in plain English?