COMMENTS ON ICANN'S FY2012 OPERATIONAL PLAN FRAMEWORK

BY THE CCNSO STRATEGIC AND OPERATIONAL PLANNING WORKING GROUP

The Strategic and Operational Planning Working Group (SOP WG) of the ccNSO welcomes the opportunity to comment on ICANN's FY12 Operational Plan and Budget Framework.

The SOP WG was created at the Cairo ICANN meeting in November 2008. The goal of the WG is to coordinate, facilitate, and increase the participation of ccTLD managers in ICANN's strategic and operational planning processes and budgetary processes.

According to its Charter (http://ccnso.icann.org/workinggroups/sopiwg-charter-18aug10-en.pdf) the WG may as part of its activities take a position and provide input to the public comments forum and relate to ICANN or other Supporting Organizations and Advisory WG's on its own behalf. The ccNSO Council and individual ccTLD managers collectively or individually, will be invited to endorse or support the position or input of the WG.

Membership of the WG is open to all ccTLD managers (members and non-members of the ccNSO)

To facilitate ICANN to relate our comments to the relevant sections of the Framework, we have followed the structure of the Framework and have categorized our submissions as follows:

- General

- Core activities

- Projects

- New gTLDs

- Budget and general financial aspects

General

- We are concerned about the lack of clarity of the strategic and budget process this year. As a not for profit organization managing resources for the benefit of the public, ICANN should be exemplary in the way it plans, operates and spends its budget. Both the strategic planning process and FY12 budget Framework do not meet our expectations in many aspects.

- The level of detail between the text of the Framework and the budget seems unbalanced; at the session with ICANN financial staff during the ccNSO meeting in San Francisco, staff present indicated there is more information (explanation) behind the financial figures, than is provided in the plan. Without that information, it is quite difficult for the community to provide meaningful, constructive feed-back. The SOP urges ICANN to provide the information that is used to compile -and thus explain- the budget.

- For each of the listed projects/operations/logistics, we recommend the inclusion of measurable goals and targets in the Operating Plan it self, bearing in mind they can be either or both be qualitative and quantitative.

- We welcome the opportunity for SO and ACs to submit requests for new services. However, considering that the budget without new gTLDs already appears to be in deficit, we believe no additional requests should be granted unless an equivalent source of cost reduction is identified and approved for the FY 2012. We note that neither the ccNSO, nor individual ccTLD managers have requested additional services and hence an increase in expenses. On the contrary, the ccTLD community has repeatedly stressed the need to reduce expenses.

Core Operations

- *Consistency between Strategic and Operating Plan*: There is no clear link between the "Core operations – including IANA" focus area as listed in the Strategic Plan 2011-2014 and the "Core operations" as presented in the Framework. The SOP WG is of the view that a yearly Operating Plan should be a logical and consistent reflection of a Strategic Plan and goals contained therein and the link between the two should be made clearly visible and understandable.
- *Inconsistency between FY 2011 and 2012 Framework*: The SOP WG notes the lack of consistency between the FY 2011 and FY 2012 Frameworks. The FY 2011 Framework contained much more detailed documentation. Further, Most of the items listed under "Core operations" in the FY 2012 Operating Plan Framework were categorized as "organizational activities" under the FY 2011 Framework. The reasoning for changing the FY 2012 is not understood. From the SOP WG's point of view the FY2011 Frameworks categorization is preferred. For example, in the FY 2012 Framework, the IANA function is considered a core operation, while the IDN Fast Track is viewed as an ad-hoc solution to meet urgent community needs. At the same time, the Nominating Committee would not usually be classified as a "Core operation" but as a "supporting service" to the Board/SOs.
- *IANA function*: it is not clear what kinds of actions are foreseen to improve efficiency and improve accountability to the community.
- *IDN Fast Track*: we believe that the efforts for enhancing IDNs and therefore, supporting multilingualism on the Internet should not be limited to the IDN Fast Track. The FY 2011 Operating Framework heading "IDN implementation" provided a much better and coherent overview of the activities related to IDN's.
- *Security, Stability and Resiliency*: We recommend the inclusion of enhanced partnerships with other organization as well as a careful and measurable review of ICANN role and activities in this area.
- *ICANN Public Meetings*: We are concerned about the spiraling meetings budget, for which no explanation is provided. An in-depth review of the meetings budget is highly recommended both to contain expenses and to ensure that adequate travel support is only provided to those applicants that would otherwise not be able to attend. See also the GNSO proposed recommendations for a Global Outreach Programme.
- *Policy development*: One of the actions according to the FY 2011 Operating plan Framework is to "*Support the design and implementation of new websites and other communications tools to improve community information sharing, collaboration, and participation in ICANN's policy related activities.*" This action item needs further explanation. In the view of the SOP WG such an item should include clearly defined goals, plans, budgets and metrics.

- *International activities*: The objectives of ICANN in this area – which was one of the organizational strengths developed over the past years – are not mentioned. This is of concern, as the plans in this area are currently unclear. Some view the geographical rotation of meetings and travel support for community members as insufficient to demonstrate ICANN's global commitment, whilst others have concerns about potentially multiple ICANN offices around the globe. Any operating plan should include further detail and be based on both medium and long-term views on this objective as included in the Strategic Plan.
- *Contractual Compliance*: It would be appreciated to understand what is the turning point in the new gTLD process to allocate expenses to the launch and than to compliance as defined under "core operations". We would also appreciate more clarification on the impact ICANN foresees on the workload and expenses in this area ones new gTLDs become operational.

Projects

- *Lack of detail on Projects*: In the FY 2012 Framework nine projects are proposed without any further explanation about the goals and milestones of these projects. It is also unclear how the total of the anticipated expenses of USD 17,900,000 or USD 1.989 Mio per project is allocated to the projects. Without an understanding of the goals, potential value (rational) of the proposed projects and allocated budget for each individual project an informed comment is not possible.

New gTLDs

- *New gTLD Contingency*: According to the FY 2012 Framework the estimated revenue for the new gTLD process is USD 92,5000,000 (based on 500 applications). Part of the revenue will be allocated for specific purposes: Application Refund, Historical Development Refund and new gTLD Contingency Fund. In the view of the SOP WG the allocations to the "Application Refund" and "Historical Development Refund" are reasonable, however the "New gTLD Contingency" seems over-budgeted. At USD 30,000,000 it is approximately 85 % of the budgeted operating expenses for the FY 2012 new gTLD round (USD 35,970,000). The Framework contains no explanation of the foreseen risks to be mitigated i.e. which costs are supposed to be covered out of this contingency fund.
- *Objection Fee Revenue*: Part of the new gTLD program is an objection process whereby each party filing an objection has to pay a fee for its objection. The expected revenue, if any, resulting from the objection process is not included in the FY 2012 Framework, nor is there an explanation why it is not included.
- *Auction revenue*: According to the new gTLD process strings will be auctioned when multiple eligible applications are filed for the same string. No revenues are budgeted for this, nor is there an explanation why it is not included
- *Transparency multiyear cost allocations*: Part of the expected new gTLD revenues in FY 2012 (totaling USD 92.5 Mio) will be cost recovery of recent years as well as prepayments for anticipated costs incurred over the next year(s). In the view of the SOP WG a clear calculation and allocation of those costs should be included (as an appendix) in the FY 2012 budget

Budget& Finance general aspects

- *Inclusion of non-cash expenses (depreciation and bad debt reservations)*: The budget (without gTLD launch) shows a deficit of USD 2.9 Mio, representing 4.2% of revenues. A clear case of over-spending, as ICANN can and should operate at a positive net result.
- *Deficit and Strategic Fund objective*: According to ICANN's Strategic Plan ICANN's Reserve Fund should be set at a **minimum** of one year of operating expenses. Without the launch of the new gTLDs process, operating expenses for FY 2012 are budgeted at USD 69.8 Mio. The current balance of the Reserve Fund is USD 50.2 Mio. In order to achieve its minimal set goal over FY 2012, USD 19.6 Mio should be added to the Fund. However, if the proposed budget for FY 2012 would be adopted, the Fund will not reach its targeted volume, but –on the contrary - will slowly but surely diverge from the set strategic goal. The SOP WG notes that any net results from the new gTLD launch will not curb this process either, as the ICANN board has pledged to run the new gTLD process on a cost recovery basis. In order to achieve the strategic objective for the Reserve Fund, the FY 2012 budget should show a significant surplus and not a deficit.
- *Diverging increase in revenue and expenses*: The 2012 revenues show a +5% increase as compared to FY 2011, while the operational costs show a 15% increase (as compared to FY 2011 budget and forecast), a clear indication that costs are spiraling out of control
- *Average Employee costs*: Personnel costs for FY 2012 are budgeted at USD 28.5 Mio. Details on the number of FTE's for FY 2012 are not provided. The SOP WG noted that for FY 2011 personnel costs are forecasted at USD 25.9 Mio for 135 FTE's which would amount to an an inexplicably high average of USD 192K per FTE. We suggest that it would be useful, if it has not been done already, to benchmark the remunerations for each job/function. The SOP WG also notes that senior ICANN staff presenting at the ccNSO meeting in San Francisco suggested that one of the (main) reasons for the relative high personnel costs at ICANN, is that much junior level work is done by highly qualified and paid senior level staff. This implies that ICANN has hired a relative high number of senior staff in comparison to junior staff. This would indeed cause relatively high personnel costs. Therefore, in addition to (or better: before the execution of) a benchmark on remunerations, it also seems to be indicated to evaluate the relation between job/function description and the actual tasks performed. We trust that ICANN's Board and CEO understand the necessity of actions needed in this area, especially in the context of the discussion of the financial contributions of ccTLDs (with ICANN) and the associated ICANN expenses attributable to ccTLDs. Part of that discussion is the development of a methodology for individual ccTLDs to calculate a fair and equitable voluntary financial contribution to ICANN.
- *Professional Services costs*: According to the FY 2012 Framework ICANN expects to be spending USD 17.2 Mio (an increase of 15% over the FY 2011 budget) on professional services. Without any further explanation, this amount is considered to be very high. Secondly, given the number of experts involved compared to FTE's, it is generally a real challenge to manage the activities and costs associated. If the new gTLD will be launched during FY 2012, the FY 2012 Framework suggests this amount will increase to USD 50.2 Mio, approximately 50% of the total budget. In the opinion of the SOP WG, ICANN is not structured to cope with the management challenges involved, and as a result the services provided will either not meet the expectations and/or can costs not be contained. We wonder whether the choice of relying on professional services is consistently weighed against other options, and, secondly, whether the professional services management is capable to deal with the number of external service providers.
- *ccTLD contributions*: The FY 2011 forecast of ccTLD contributions appears to be half of the original amount budgeted (USD 835k vs. USD 1.6 Mio.). Surprisingly, the proposed FY 2012 budget is identical to the FY 2011 budget (USD 1.6 Mio.). If the forecast is correct, it would

suggest that in FY 2012 ICANN expects to receive twice the amount it has received in FY 2011 from ccTLDs.

We trust that our input and comments will help ICANN to build a FY 2012 operational plan and budget that meets the standards of efficiency, effectiveness, transparency and accountability pursued by the organization and needed by the community.

We would welcome a response on our submission, in particular to understand which comments are reflected in the FY 2012 Operational Plan and Budget and, more importantly, which were not and the associated reasoning.

On behalf on the ccNSO SOP Working Group

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Chair.