Financial Accountability - Recommendation 12

Implementation Briefing for the Third Accountability & Transparency Review Team (ATRT3)

Recommendation 12

In light of the significant growth in the organization, the Board should undertake a special scrutiny of its financial governance structure regarding its overall principles, methods applied and decision-making procedures, to include engaging stakeholders.

12.1. The Board should implement new financial procedures in ICANN that can effectively ensure that the ICANN community, including all SOs and ACs, can participate and assist the ICANN Board in planning and prioritizing the work and development of the organization.

12.2. The Board should explicitly consider the cost-effectiveness of ICANN's operations when preparing its budget for the coming year, in keeping with ICANN's status as a non-profit organization operating and delivering services in a non-competitive environment. This should include how expected increases in the income of ICANN could be reflected in the priority of activities and pricing of services. These considerations should be subject of a separate consultation.

12.3. Every three years the Board should conduct a benchmark study on relevant parameters, (e.g. size of organization, levels of staff compensation and benefits, cost of living adjustments, etc.) suitable for a non-profit organization. If the result of the benchmark is that ICANN as an organization is not in line with the standards of comparable organizations, the Board should consider aligning the deviation. In cases where the Board chooses not to align, this has to be reasoned in the Board decision and published to the Internet community.

12.4. In order to improve accountability and transparency ICANN's Board should base the yearly budgets on a multi-annual strategic plan and corresponding financial framework (covering e.g. a three-year period). This rolling plan and framework should reflect the planned activities and the corresponding expenses in that multi-annual period. This should include specified budgets for the ACs and SOs. ICANN's {yearly) financial reporting shall ensure that it is possible to track ICANN's activities and the related expenses with particular focus on the implementation of the (yearly) budget. The financial report shall be subject to public consultation.

12.5. In order to ensure that the budget reflects the views of the ICANN community, the Board shall improve the budget consultation process by i.e. ensuring that sufficient time is given to the community to provide their views on the proposed budget and sufficient time is allocated for the Board to take into account all input before approving the budget. The budget consultation process shall also include time for an open meeting among the Board and the Supporting Organizations and Advisory Committees to discuss the proposed budget.

Implementation Status

Operationalized in June 2016. Executive summary and archives available at:
https://community.icann.org/display/atrt/Rec+%2312

Deliverables

Deliverable	Responsible	Status
12.1 & 12.5 – The processes to develop the Strategic Plan, Five-Year Operating Plan and Annual Operating Plan and Budget allow for input from the ICANN community during their development stages via multiple working groups, calls, webinars and public comment periods. In addition, the commencement date for these planning processes have been moved up versus prior years to allow for sufficient time for interaction between the community, ICANN Board and staff. These interactions result in improved input from the community, which ultimately inform ICANN staff's draft and final documents.	ICANN org	✓
12.2 - The correlation of revenues and expenses in the long term was enabled through the development of a 5-year financial model included in the ICANN strategic plan.	ICANN org	✓
12.3 – ICANN currently identifies targets in its KPI Dashboard which informs the Annual Report that is reviewed and approved by the ICANN Board. Benchmark references will be included in the KPI Dashboard once a comparable non-profit organization is identified. The estimated time for the first benchmarking study to be completed is FY18.	ICANN org	✓
12.4 – The Annual Operating Plan and Budgets are derived from the Five-Year Operating Plan following community input. Specific budgets for the SO/AC groups are included in the Annual Operating Plan and Budgets under Objective 1 - Evolve and further globalize ICANN.	ICANN org	✓

A draft of the process to specify the entire annual budget by SO/ AC group will be presented at ICANN 59 for community consultation and input.		

Results and Implementation Details

12.1 and 12.5

The processes to develop the Strategic Plan, Five-Year Operating Plan and Annual Operating Plan and Budget allow for input from the ICANN community during their development stages via multiple working groups, calls, webinars and public comment periods. In addition, the commencement dates for these planning processes have been moved up versus prior years to allow for sufficient time for interaction between the community, the ICANN Board and the ICANN organization (ICANN org). These interactions result in improved input from the community, which ultimately inform the ICANN org's draft and final documents. These interactions have been well received by the community and will continue to be a part of the planning and budgeting processes in the future.

The successes achieved for FY16 and FY17 have been leveraged and incorporated into future processes:

- FY16: On 25 November 2014, the ICANN org hosted a call during which the ICANN org and community members discussed the ICANN Draft Five-Year Operating Plan and FY16 Operating Plan and Budget Calendar. On 9 February 2015 at ICANN52 in Singapore, the ICANN org hosted a small working group to review and define budget assumptions relative to revenue, priorities, initiatives, expenses envelopes for FY16 Operating Plan and Budget. See https://community.icann.org/display/projfinadhocws/Finance+Community+Group+Workspace for more information.

- FY17: For the FY17 process, the ICANN org continued its interaction with the community via a webinar (22 September 2015), face-to-face working groups and meetings with SO/AC groups in Dublin (21 October 2015) and Marrakech (6 March 2016), and a high-interest topic session in Marrakech (10 March 2016).

The ICANN org received a wide range of comments on the Draft FY16 and FY17 Operating Plan and Budgets from multiple contributors. The ICANN org and Board Finance Committee (BFC) members participated in calls with the organizations that submitted comments. The purpose of the calls was to ensure understanding of the comments so that the most clear and relevant responses possible would be provided. The comments and feedback from the

community calls were reviewed by the ICANN org and BFC members and used to amend and improve the final documents.

FY16
- 5-year Strategic Plan Public Comment Response Report: https://www.icann.org/en/system/files/files/report-comments-stratplan2013-07sep12-en.pdf
- ICANN Draft Five-Year Operating Plan Public Comment Response Report: https://www.icann.org/en/system/files/files/report-comments-draft-five-year-ops-06feb15-en.pdf
- ICANN Draft FY16 Operating Plan & Budget Public Comment Response Report: https://www.icann.org/en/system/files/files/report-comments-op-budget-fy16-05jun15-en.pdf
- Community Calls: https://community.icann.org/display/projfinadhocws/Public+comments+submitted+on+the+Draft+FY16+Operating+Plan+and+Budget

FY17
- Staff Report of Public Comment Proceeding: Draft ICANN FY17 Operating Plan and Five-Year Operating Plan Budget: https://www.icann.org/en/system/files/files/report-comments-op-budget-fy17-five-year-06jun16-en.pdf
- Community Calls: https://community.icann.org/display/projfinadhocws/5-10+May+2016+Calls+with+Community+on+Public+Comments+Submitted+on+the+Draft+FY17+Operating+Plan+and+Budget

FY18
- Staff Report of Public Comment Proceeding: ICANN's Draft FY18 Operating Plan and Budget, and Five-Year Operating Plan Update: https://www.icann.org/en/system/files/files/report-comments-fy18-budget-02jun17-en.pdf
- Community Calls: https://community.icann.org/display/projfinadhocws/Calls+with+Community+on+Public+Comments+Submitted+on+ICANN%27s+Draft+FY18+Operating+Plan+and+Budget%2C+and+Five-Year+Operating+Plan+Update

FY19
- Summary Report of Public Comment Proceeding: ICANN Draft FY19 Operating Plan and Budget, and Five-Year Operating Plan Update: https://www.icann.org/en/system/files/files/report-comments-fy19-budget-24apr18-en.pdf
- Community Calls: https://community.icann.org/display/projfinadhocws/Finance+Sessions+and+Webinars

The annual operating plan and budgets are the collective achievement of the ICANN community and the multistakeholder model, that transformed the goodwill of collaboration into the reality of successful output. The development process is a solid platform to build on for future stronger

achievements. The ICANN org will continue to review the lessons learned from each year's process to ensure improvements are implemented and sustained.
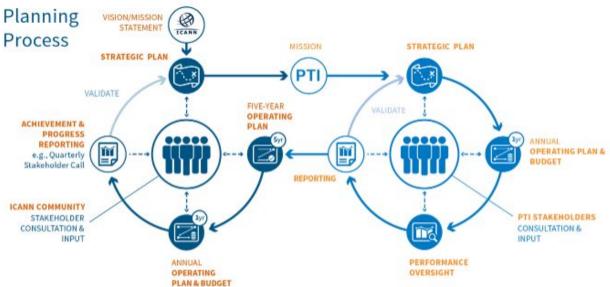
Moreover, as a result of the Cross-Community Working Group on Enhancing ICANN Accountability's (CCWG-ACCT) recommendations, processes (as of October 2016) now give the ICANN community, through the empowered community, an opportunity to reject any of the annual, five-year operating plan or five-year strategic plans, which provides an additional level of accountability to the ICANN community in the development of these plans.

12.2
The correlation of revenues and expenses in the long term is embedded in the ICANN strategic planning process, through the development of a five-year financial model (see www.icann.org/en/system/files/files/strategic-plan-2016-2020-10oct14-en.pdf).

Strategic planning is a core element of ICANN's three-fold planning process cycle, namely the strategic plan, five-year operating plan, and the annual plan and budget process. Strategic planning helps answer two very important questions: where are we now? And where do we want to be? Once the strategic planning process is completed, the next step is to develop ICANN's five-year operating plan, and annual plan and budget process. These plans answer the questions: how we will get there and who will do what? They help ICANN fulfill its mission and vision by putting the objectives of the strategic plan into action. The cycle ends with ongoing achievement and progress reporting to help us answer the final question: how are we doing?

For more information:
https://www.icann.org/resources/pages/strategic-engagement-2013-10-10-en
https://www.icann.org/resources/pages/governance/planning-en

12.3

One of the cornerstones to ICANN's financial transparency and accountability is the process of providing operational and financial performance results on ICANN's deliverables on a regular and timely basis. This was enabled through ICANN's quarterly stakeholder calls (see https://www.icann.org/quarterlyreports). The quarterly stakeholder calls were terminated after the FY18Q3 call due to low participation in calls and were replaced with the President's report to the Board, which provides similar material in a written format. This report is published approximately every four months. See https://www.icann.org/presidents-corner for more details.

Unaudited financial statements are published every quarter. See https://www.icann.org/resources/pages/governance/current-en for details. These same data points are also published on the Accountability Indicators, which is the report that has replaced the KPI Dashboard. The Accountability Indicators are updated in the month following each ICANN public meeting. See https://www.icann.org/accountability-indicators for details. The Accountability Indicators also report on the amount of time it takes to publish the audited financial statements each year (see the chart in 5.2).

The ICANN org has addressed the intent of this recommendation through the following:
1. Processes were initiated in ICANN's Human Resources Department to ensure that compensation and benefits are in line with the market.
2. Processes are in place to ensure that our facilities, travel and other significant expenses are checked/evaluated. Expenses are reviewed and approved.
3. Actions were taken to get the reserve balance up to a level considered prudent for our type of organization. A reserve fund replenishment strategy was submitted for public comments. A Board decision was then taken to approve a reserve fund replenishment strategy. FY20 is the first budget that includes a planned contribution into the Reserve Fund ($3m).
4. Similarly, the ICANN org has taken initiative to keep costs of operation within a reasonable range. The funding for ICANN is stabilizing and growing at a slower rate and expenses have been aligned with this modest growth. Several efficiencies have been implemented to slow the growth in personnel and in meetings costs.

12.4

The intent of this recommendation was that the ICANN org and Board should plan ahead with alignment with the strategic plan, and consider anticipated funding as compared to the costs of operation, which would also include budget allocations for SO/AC work. Planning is completed in a transparent manner, with input from community. This recommendation is closely related to 12.1, 12.2 and 12.5. As referenced above, ICANN's annual budgets are based on ICANN's five-year strategic plan. The annual operating plan and budget development process includes an update to the five-year operating plan based on progress toward the strategic goals defined in the five-year strategic plan.

Specific budgets for the SO/AC groups are included in the annual operating plan and budgets, currently under Objective 1 - evolve and further globalize ICANN. The budget covers the direct support of activities such as developing work plans and priorities; managing logistics, content, and reports of all meetings and workshops; and preparing and publishing work products in addition to specific travel funding. The financial impact of indirect and shared services support of SO/ AC activities is currently being defined.

The adopted five-year (FY16-20) operating plan update includes: a five-year planning calendar; strategic goals with corresponding key performance indicators, dependencies, five-year phasing, and list of portfolios; and a five-year financial model.

The annual operating plan and budgets are derived from the adopted five-year operating plan update following community input. The document includes data on all projects to be carried out by the organization during the fiscal year and displays all costs categories for each project. Each project is also mapped to one of the five objectives of the strategic plan, through the hierarchy of portfolios and goals, making the rationale for each project and activity clear and transparent.

Useful Links

Finance Community Group Work Space -
https://community.icann.org/display/projfinadhocws/Finance+Community+Group+Workspace

ICANN Planning Process - https://www.icann.org/resources/pages/governance/planning-en

ICANN Strategic Planning -
https://www.icann.org/resources/pages/strategic-engagement-2013-10-10-en

Public comment on ICANN Draft Five-Year Operating Plan
https://www.icann.org/public-comments/proposed-opplan-budget-2016-2020-2014-11-11-en

Public comment on ICANN Draft FY16 Operating Plan & Budget
www.icann.org/public-comments/op-budget-fy16-2015-03-18-en

FY16 Operating Plan & Budget Public Comment Response Report Related Community Calls:
https://community.icann.org/display/projfinadhocws/Public+comments+submitted+on+the+Draft +FY16+Operating+Plan+and+Budget

5-year Operating Plan Update and FY17 Operating Plan & Budget Public Comment Response Report:

https://www.icann.org/en/system/files/files/report-comments-op-budget-fy17-five-year-06jun16-en.pdf

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ICANN Strategic Plan (FY16-20) -
www.icann.org/en/system/files/files/strategic-plan-2016-2020-10oct14-en.pdf

ICANN Planning Process - https://www.icann.org/resources/pages/governance/planning-en

ICANN's Quarterly Stakeholder Calls - https://www.icann.org/quarterlyreports

Quarterly Financial Reporting - https://www.icann.org/presidents-corner

Audited Financial Statements - https://www.icann.org/resources/pages/governance/financials-en

KPI Dashboard - https://www.icann.org/accountability-indicators

Annual Report https://www.icann.org/resources/pages/governance/annual-report-en