

# ANNUAL REPORT 2019



**EDUCATION PAYROLL**  
Rārangi Utu ā-Mātauranga





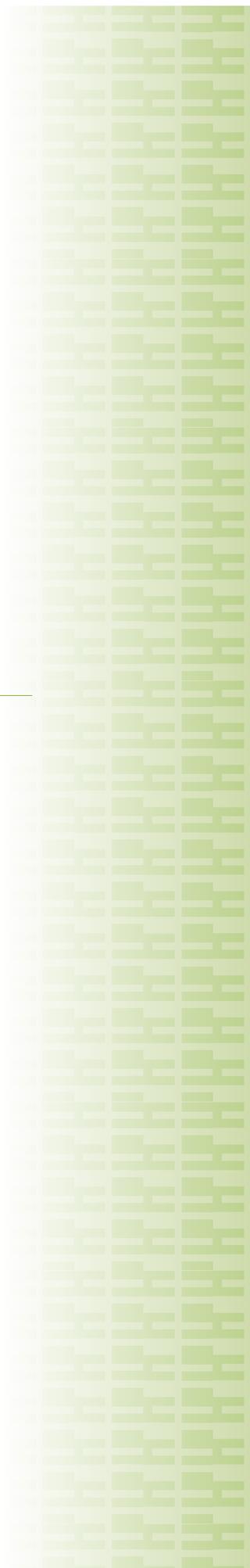
Published in SEPTEMBER 2019  
Education Payroll Limited  
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This Annual Report is submitted by the Board of Education Payroll Limited (EPL) which is accountable to EPL's two shareholding Ministers, the Ministers of Finance and Education, as set out in the Crown Entities Act 2004.

# 2019

EDUCATION PAYROLL LIMITED

**ANNUAL REPORT**



# CONTENTS

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BOARD CHAIR'S FOREWORD	1
OUR BUSINESS	2
OUR SERVICES	3
STATEMENT OF PERFORMANCE	4
OUR ACHIEVEMENTS	8
Fortnightly Pay Cycle	8
Education Payroll Development Programme	9
Development and Release of EdPay	9
Better Every Day	10
VALUING OUR CUSTOMER	12
OUR PEOPLE	14
STATEMENT OF CORPORATE GOVERNANCE	16
STATEMENT OF RESPONSIBILITY	18
INDEPENDENT AUDITOR'S REPORT	19
FINANCIAL STATEMENTS	23

## BOARD CHAIR'S FOREWORD

We are pleased to present our performance, achievements and financial statements for another year, ending 30 June 2019.

Our 2018/19 year was one of our most exciting and productive yet. Our School Account Teams continue to work hard at processing requests and tickets, answering enquiries, and generally doing whatever they can to help make payroll easier for schools.

End of Year/Start of Year remains the busiest time on the calendar, both at Education Payroll and for the payroll administrators across New Zealand's 2500 schools. The adoption of *Better Every Day* and *AGILE* working environments continue to embed throughout the business, allowing structured change, design and implementation.

The Education Payroll Development Programme (EPDP), which was established following the 2016 approval of a Detailed Business Case, is delivering results – particularly around the building of our new payroll service, EdPay.

A beta version of EdPay was made available to a small number of schools throughout the year and they began using it to complete some of their payroll transactions while providing us with invaluable feedback. This feedback helps inform what we do next as we are committed to building something that schools find essential for completing their payroll.

At time of writing EdPay is currently being used by 200 schools, and we look forward to making it available to every school in New Zealand throughout 2019/20.

The year saw a number of Collective Agreements expire and many rounds of bargaining between unions and the Ministry of Education. This included periods of sustained industrial action. The School Account Teams received a lot of phone calls and emails about how payroll was affected and I'm proud of the way they managed the extra attention while still providing great service.

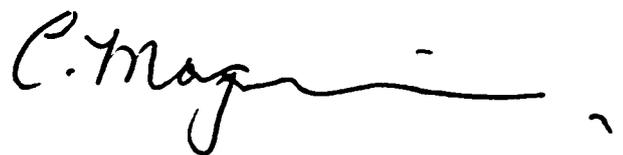
A member of the Board since the beginning and our Chair since 2016, Murray Jack retired in July 2019. Murray's wealth of expertise and experience has helped greatly shape Education Payroll Ltd as it stands today. We wish him all the best and thank him for his contributions. Colin MacDonald QSO joined our Board in August 2019 and we look forward to using his immense experience with Information Technology and delivery of major initiatives.

On behalf of the board, I would like to thank our Chief Executive Arlene White and all Education Payroll staff for their work over the past year, and we look forward to continuing our transformational journey in the year ahead with the successful delivery of EdPay and other aspects of our 10 year investment programme aimed at adding value to the education sector as whole. 🇳🇿

*This Annual Report is signed on behalf of the Board by:*



**Sandi Beatie QSO**  
Board Chair  
20 September 2019



**Cathy Magiannis**  
Chair of Audit and Risk Committee  
20 September 2019

# OUR BUSINESS

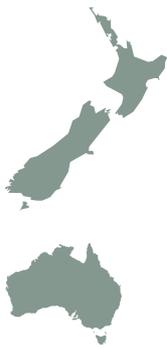
Education Payroll Limited provides payroll services to New Zealand's state schools.

Every fortnight we make sure the schools' payroll is delivered accurately and on time. This includes managing third party payments, such as ACC, KiwiSaver, and student loans. The fortnightly cycle forms part of a complex annual cycle of payroll events matched to the school calendar year. 



Each fortnightly pay period we pay out about \$198 million (gross)

## A COMPLEX BUSINESS TO BE IN



The schools' payroll is the largest in New Zealand and one of the top 10 in Australasia. We pay around 92,000 teachers and support staff – that's the biggest employee group in New Zealand.



Every year we manage payments valued at over \$5.1 billion per annum. That's about five percent of total government expenditure



The schools' payroll covers 14 collective agreements, with a possible 1,500 unique pay rates and 10,000 possible permutations every pay run



Education Employees work in around 2,500 schools



We work with over 6,800 payroll administrators in those school.



# OUR SERVICES

We deliver an efficient, integrated payroll service to schools.

The service is delivered on behalf of the Ministry of Education. We have a Services Agreement with the Ministry to deliver payroll, which includes performance targets relating to accuracy, timeliness and quality.

Our services include:

- Delivery of the core payroll to teachers and support staff
- Assessment of teachers' qualifications and relevant experience to determine correct salaries
- Processing and administration of ACC claims on behalf of schools
- Providing guidelines and communications to schools
- Answering queries from schools about their payroll
- Providing school employees with a payslip
- Assurance and controls
- Management of debt related to payroll overpayments
- Administering third party payments (e.g. ACC, KiwiSaver, student loans)
- Payroll reporting to schools and MoE

Our services are delivered from our Wellington offices. 

## A FORTNIGHT IN THE LIFE OF EPL



### EVERY FORTNIGHT OUR SCHOOL ACCOUNT TEAMS RECEIVE ABOUT::



**12,500** instructions from school administrators



**5,500** phone calls

### THE MAIN REQUESTS WE GET ARE TO MANAGE:



Pay details



Position details



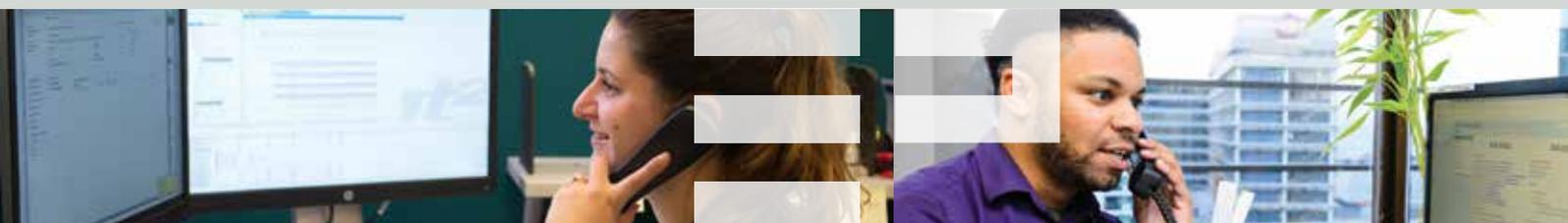
Pay rates



Leave



Allowances and grants



# STATEMENT OF PERFORMANCE

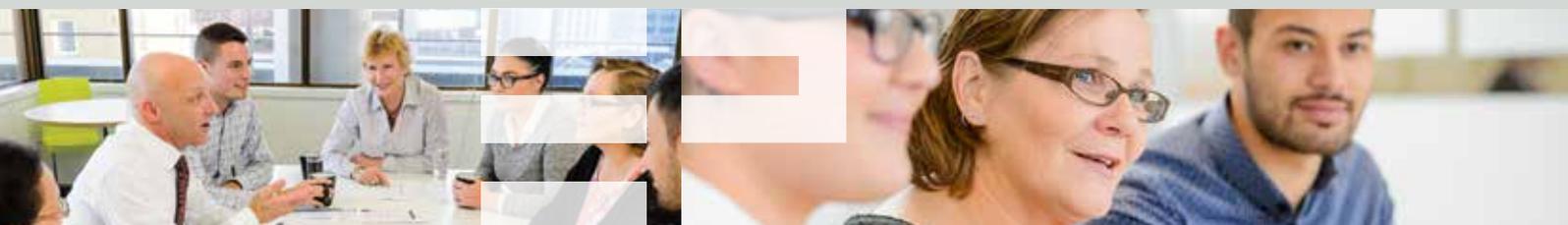
For the 2018/19 financial year, Education Payroll's performance was guided by the 2018/19 Statement of Performance Expectations and the 2018-2022 Statement of Intent.

Education Payroll's primary output is the effective delivery of schools' payroll service. We have a clear focus on providing an accurate, reliable and timely

payroll. We measure and evaluate our performance on how well we are delivering the payroll and how we are delivering on our work programme.

The output draws on revenue from a Services Agreement with the Ministry of Education.

	2019 Actual \$000	2019 Budget \$000	2018 Actual \$000
<b>Period ended 30 June 2019</b>			
Total revenue	28,578	27,500	27,737
Total expenditure	28,377	27,192	26,881
<b>Surplus</b>	<b>201</b>	<b>308</b>	<b>856</b>



We measure our success with the following key performance indicators:

## CORE PAYROLL SERVICE

Services which relate to the accurate provision of payments and entitlements to school employees.

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2018/19	STANDARD 2018/19	ACTUAL 2017/18
<b>ACCURACY</b>				
Payroll payments to eligible teachers and schools support staff are accurately calculated	Percentage of employees paid excluding requests, by exception, to correct payments to employees and pay impacting tickets not processed in the current fortnight	99.8%	99.5%	99.8%
Payroll Instructions submitted 'right first time' by schools	Percentage of payroll instructions received from schools that can be processed first time without being returned for further information	80.9%	80%	81.5%
<b>TIMELINESS</b>				
Payroll payments to eligible teachers and school support staff which are sent to financial institutions on time in order to be processed on or before advised pay dates	Percentage of employees paid excluding the employees receiving a manual pay in the fortnight following the advised pay date	100%	99.5%	100%
<b>QUALITY</b>				
Customer satisfaction	Percentage of survey respondents satisfied with the overall quality of the service delivery and the support they receive from Education Payroll	76%	70%	80.3%

## DEBT MANAGEMENT

Notification, recovery and administration of payroll-related overpayments.

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2018/19	STANDARD 2018/19	ACTUAL 2017/18
<b>ACCURACY</b>				
New overpayments created	Percentage reduction in new overpayments <sup>1</sup> created compared with the previous year	31.2%	15%	21.7%
<b>TIMELINESS</b>				
Debt notification made on time	Debtors will receive their first notification of debt within 15 working days of the debt being discovered	99.4% <sup>2</sup>	99.5%	100%

- 1 Where an authority to deduct overpaid salary/allowance is received and processed from employee's next available pay, no overpayment is recorded and has therefore not been included in this calculation.
- 2 During the transition of the Debt unit from Christchurch to Wellington, some tickets were not completed within 15 working days.

## SALARY ASSESSMENT

Assessment of teachers' qualifications and relevant experience to determine the correct salary and ensure correct salary payments.

We received approximately 9,400 assessments last financial year.

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2018/19	STANDARD 2018/19	ACTUAL 2017/18
<b>ACCURACY</b>				
Notification of errors related to salary assessment determinations	Percentage of transactions received and completed that did not result in notification of errors <sup>3</sup> from schools, employees, the Ministry of Education, or an overpayment related to incorrect salary assessment	99.9%	99.5%	99.8%
<b>TIMELINESS</b>				
Salary assessments processed on time	Accurate assessments will be processed within 15 working days from date of receipt <sup>4</sup>	100% <sup>5</sup>	100%	100%

- 3 The reported performance does not capture errors notified by schools, employees or the Ministry of Education.
- 4 Date of receipt is when the application is complete with all required information for Education Payroll to make an assessment. If a teacher provides a correct application but does not provide all necessary documentation, an interim assessment will be processed (based on the documentation received) where appropriate.
- 5 This is rounded to the nearest 0.1%. Three salary assessments (from 9,400) took longer than the 15 working days target while Education Payroll's salary assessment operations were being relocated from Christchurch to Wellington.

## ACC ADMINISTRATION

Processing and administration of ACC claims on behalf of schools, in accordance with the Employment Reimbursement Agreement with the Ministry.

We processed approximately 2,000 ACC claims last financial year.

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2018/19	STANDARD 2018/19	ACTUAL 2017/18
<b>ACCURACY</b>				
Notification of errors related to ACC claims	Percentage of transactions received and completed that did not result in notification of errors from schools, employees, or the Ministry of Education	100%	99.5%	99.7%



# OUR ACHIEVEMENTS

The 2018/19 year focused on improving our high level of service to our customers and the education sector as a whole, while continuing our work through the Education Payroll Development Programme (EPDP). This included building and trialling EdPay, a new payroll service to replace Novopay.

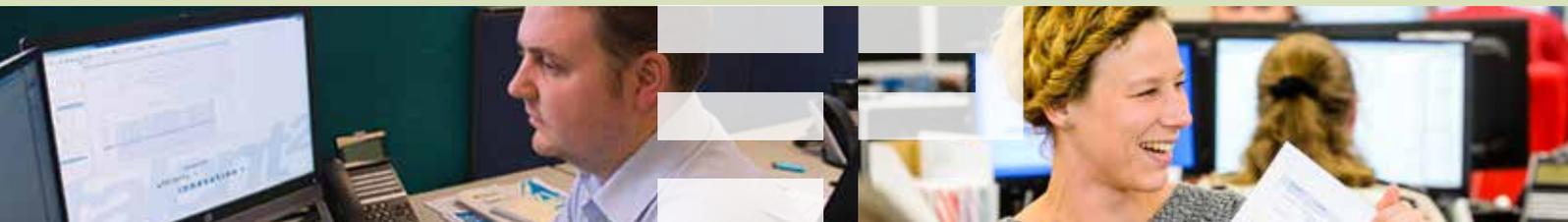
## FORTNIGHTLY PAY CYCLE

The fortnightly pay cycle touches all areas of Education Payroll – from our payroll advisers entering payroll instructions and answering queries from schools, to our technology team

who support each pay run by ensuring the payroll system is maintained to the required standard.

In 2018/19 Education Payroll has successfully managed the delivery of the pay accurately and on time for all fortnights.

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
		Day 1	Day 2	Day 3	Day 4	Day 5
		Pay period begins				
Day 6	Day 7	Day 8	Day 9	Day 10	Day 11	Day 12
<b>5.00 pm</b> ⌚ Cut-off for instructions via form		<b>3.00 pm</b> ⌚ Cut-off for online instructions	<b>9.00 am</b> ⌚ 1st draft SUE report available  <b>Noon</b> ⌚ Cut-off for SUE REPORT CORRECTION via NOVO31 form	<b>5.00 pm</b> ⌚ Cut-off for online corrections		Termination pay run (final pay calculations)
Day 13	Day 14					
<b>9.00 am</b> ⌚ 2nd draft SUE report available  <b>11.00 am</b> ⌚ Cut-off for STOP PAY ADJUSTMENT  <b>Overnight</b> Pay run	<b>9.00 am</b> ⌚ Final SUE report available  <b>10.00 am</b> ⌚ Cut-off for FULL STOP PAY	<b>Midnight</b> Pay day  New pay period begins				
						⌚ Indicates a cut-off



## END OF YEAR/START OF YEAR

Between October and March every year over 40% of school employees require changes to their payroll records. This period is called End of Year/Start of Year (EOY/SOY) and it happens at a time when schools are closing for the holiday period, holiday payments are being made, and a number of contract changes are implemented. In addition, school financial reporting is due at the end of March.

Our payroll advisers provide significant extra support to schools during this period and a dedicated EOY/SOY working group is established to monitor progress, create supporting documentation and training, and communicate key dates and variations to the regular payroll cycle.

## EDUCATION PAYROLL DEVELOPMENT PROGRAMME

The Detailed Business Case for a better schools' payroll was approved in late 2016 and the Education Payroll Development Programme (EPDP) has been established to implement a fully online service by 2020. This investment will provide a sustainable, compliant and cost-effective payroll system for the next decade.

EPDP uses the *AGILE* methodology which involves customer-centric design, testing and feedback processes, and staged implementation to build familiarity and assurance. Key benefits for working this way include:

- Deliver value earlier in increments
- Reduced risk through early identification and resolution
- Increased built-in quality, less defects
- Allows the business to respond to change
- Enable learning as we go

Our *AGILE* and lean development practices increased throughout the year, reducing over-specification and delivering faster increments whilst increasing built-in quality with comprehensive automation of our test suites, giving us break detection and enabling faster development with increased quality controls.

The teams operate within "Program Increments", adopting Continuous Improvement practices of integrating code regularly. Dev/Ops tools to release software more regularly continue to be embedded with security by design.

Over the year, EPDP successfully completed work packages relating to improving Salary Assessment, Overpayments, Payroll Processing, E-payslips and made progress with Business Continuity and Disaster Recovery, Modernised Working Environment, and Security and Privacy.

The main benefits of EPDP come from the creation of EdPay, a new payroll service which will eventually replace Novopay.

## DEVELOPMENT AND RELEASE OF EDPAY

During 2018/19 Education Payroll has been developing EdPay. While the core payroll database (Alesco) remains, EdPay provides an entirely new interface for school administrators and Education Payroll staff.

Currently, Novopay is largely driven by manual forms. Education Payroll receives on average 12,500 forms per pay period. EdPay will significantly reduce this number and has been designed to improve the usability, efficiency and accuracy of schools payroll.

In March and June 2019 Education Payroll released Beta versions of EdPay to limited numbers of schools. The core functionality in these releases allowed schools to view all their employee data in one place, add a new employee, terminate their contract and edit and update their financial and personal details.

Feedback from the Beta schools has been extremely positive. They universally see it as significantly easier to use and look forward to more features being added in the future.

Over 2019/20 Education Payroll will continue to develop EdPay, with the aim that it is released generally to schools by the end of 2019.

## ENTERPRISE PORTFOLIO MANAGEMENT OFFICE (EPMO)

In March 2019 Education Payroll put in place an EPMO. This is a business function that operates at a strategic level in collaboration with our Senior Leadership Team. The goal of this office is to provide guidance, governance, standardised processes, and best practices, tools and techniques for project management.

At Education Payroll, the EPMO also manages the change requests from the Ministry of Education, ensuring that impact assessments are delivered promptly and works with all parties to deliver these initiatives.

## BETTER EVERY DAY

In 2018/19 Education Payroll remained committed to the State Service Commission's *Better Every Day* continuous improvement method, delivering an end-to-end customer-centric operating model.

*Better Every Day* practitioners continue to champion the approach throughout Education Payroll, ensuring it is at the forefront of all decision-making. These practitioners were selected across the business in order to provide cross-functional insight and experiences into different areas of the company.

*Better Every Day* means constantly seeking simplification to minimise exceptions and improve flow, and actively working with users to reduce failure demand and get things right first time.

We work closely with the sector and users of the payroll service to understand what they really want and what improvements will make the biggest difference for them.

*Better Every Day* led to improvements in the following areas:

### Salary Assessment Unit productivity improvements

Salary assessment was transferred from Christchurch to the Wellington Office and provided greater opportunity for Specialised Services to streamline and improve the processes.

Improvements throughout the year include a move from handwritten forms to smart-forms, improved website information and FAQs, consolidation of calculation methods, a knowledge base developed for assessing applications, and the simplification of forms. These changes reduce the time to process an application, the rate of "right first time" applications, and makes the process more timely and transparent.

### End of Year/Start of Year (EOY/SOY)

We identified pain points for schools and changed the EOY/SOY guides to condense content. We also created a "Decision Tree" around terminations in order to simplify the process.

We proactively contacted and provided additional information and support to schools that we believed may need extra assistance during this time.



### Centralised overpayments management

Work was done to significantly reduce the number of overpayments. For overpayments that do occur, the accuracy of identification and calculation has been increased by moving overpayments processing to a dedicated team of three SAT members, who pass cases to the debt management unit on a more timely basis.

### Payroll process improvements

School Account Teams have been developing a range of initiatives to reduce workloads and improve the accuracy of the payroll. A sample of these include:

- Electronic submission of Novopay access forms to be submitted by email instead of posting
- A rework of the processes for career stage allowances, increasing accuracy and reducing work effort
- Training of new team members in Debt Management and Salary Assessment Unit on the closure of the Christchurch office
- Development of processes for use of offsets instead of debt management
- Service and leave transfer process simplification
- Principals salary process improvement
- Complex process centralisation into one team of senior SAT members to ensure quality and consistency of results. 

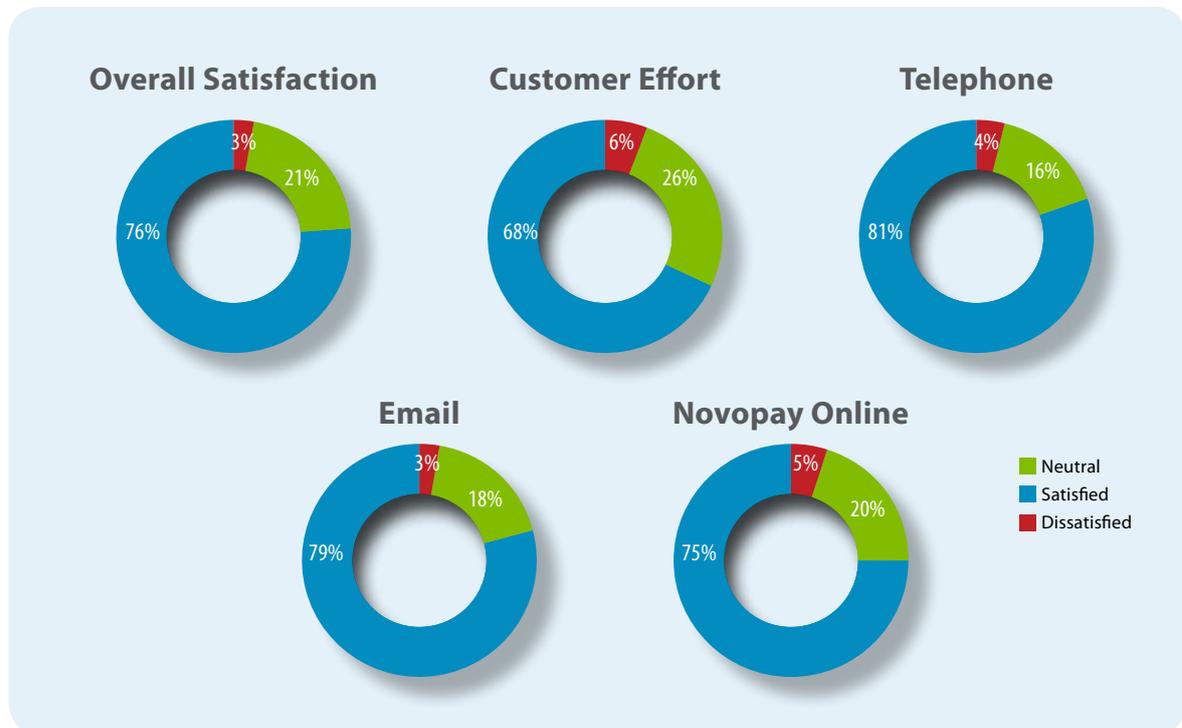


# VALUING OUR CUSTOMER

## CUSTOMER SATISFACTION

In 2016 Education Payroll introduced a quarterly online customer satisfaction survey with authorised users of the schools payroll. Based on feedback from the schools, we continue to make improvements to the service, including updates to NOVO forms, ensuring advice is consistent across payroll advisers, and increasing online functionality.

The graph below is a snapshot of the average result for 2018/19. It reflects overall satisfaction, customer effort (how easy Education Payroll makes it for schools), quality of response from telephone enquiries and email interactions, and the overall usability of Novopay Online.



## THE SECTOR

Education Payroll continues to work on our connection to the broader education sector (unions and associations) and with other third parties involved in the payroll process, such as ACC and Inland Revenue.

We remain active with leaders in the education sector, holding regular meetings where payroll issues and developments are discussed. We take perspectives from the sector into account for our planning. The contributions from sector leaders have been invaluable.

We were involved with supporting the sector during collective bargaining and industrial action that took place from the end of 2018 and

throughout 2019 and will ensure all updated collective agreements and terms of settlement are met.

## TECHNOLOGY AND SUSTAINABILITY OF THE PAYROLL SYSTEM

Our technology systems underpin the ongoing performance of our payroll service. In 2018/19 the core payroll system continues to be stable with high availability maintained during the year. The focus is now on the upgrade of the current technology stack and re-design of a more customer-centric interface.

In the past year Education Payroll has commissioned the new digital user interface

(EdPay) and supporting application architecture utilising modern development practices and patterns including implementing Hybrid Cloud and Cloud Ready capabilities.

### Infrastructure Resilience

To increase Education Payroll's resilience through a disaster, Education Payroll has invested in a Business Continuity Site through partnering with workspace provider Regus for emergency accommodation and equipment both locally in Wellington and remote sites. This is further enhanced through modernising remote and flexibly working capabilities.

Employee and customer experience is at the heart of the technology-enabled capabilities. Education Payroll has started the transformation to a modernised work environment that provides a digital, flexible workplace, simplifying technology to increase productivity and ensuring fit-for-purpose equipment which replaced aging devices with improved collaboration capability.

### Technology Risk Reduction

Several initiatives have been undertaken by Education Payroll to continue building on its risk reduction and maturing Education Payroll's security practises. We continuously refresh technology services to ensure a sustainable future.

EdPay is built utilising industry standard technologies with self-documentation and automation as a key delivery, reducing risk on single person knowledge or specialist skills.

We have continued improvements and advancements in security culture and practices. We test often and early to assess risk and ensure built-in quality.

### Improvements to Payroll System

The core payroll system has been enhanced in the areas of Service Accumulation, Funding Functions, the implementation of numerous compliance and sector outcomes, and the optimisation of processing times of key batch processing functions. Work is in progress for improving Attestations.

We have continued our focus on process efficiency and automating processes to save hundreds of hours per year and reduce the error rate due to manual processes.

## MANAGING CORPORATE RISK

An enterprise risk management framework based on ISO31000 is in place. The senior leadership team reviews and updates the corporate risk register regularly. The Ministry, through the Operations Board, receives Education Payroll risk reports every fortnight. The Audit and Risk Committee meets quarterly to discuss and follow-up on key and emerging risks. This is an area earmarked for a refresh in 2019/20.

A mature incident management framework and process compliments Education Payroll's risk management programme. It proactively manages incidents from investigation to closure and lessons learnt. Education Payroll has a strong privacy and security framework supported by a security and privacy board that meets monthly.

### Assurance and Controls Environment

The Assurance Framework, based on the 'Three Lines of Defence' and the Payroll Assurance Framework, guide the activities and performance of the assurance function. In 2018/19, the team completed 26 audits. This year, we spent more time on the Education Payroll Development Programme as it is an area of large investment that will address a majority of past control weaknesses in school payroll delivery.

Education Payroll's approach to the development of assurance practice within the context of EPDP's *AGILE* programme management has been identified by the public sector as a thought leader. The Education Payroll Assurance Team has provided expert guidance, based on Education Payroll's experience, to a number of public agencies over the latter half of 2018/19. 

## OUR PEOPLE

We value our people and recognise that Education Payroll Limited's strength is the capability and commitment of its people. Our people have a wide variety of strengths and skills and we're always looking for the best way to utilise this diverse range of talent.

Education Payroll strives for a strong organisational culture where people feel valued, connected and engaged.

The Board and leadership of Education Payroll are committed to ensuring the company is a good employer.

### EDUCATION PAYROLL'S VALUES

#### Make things easier

for all our customers and colleagues

#### Improve through understanding

use evidence to find solutions for changing needs

#### Learn through doing

try things out, be practical and innovative

#### Work as a team

bring all our strengths together to make things happen

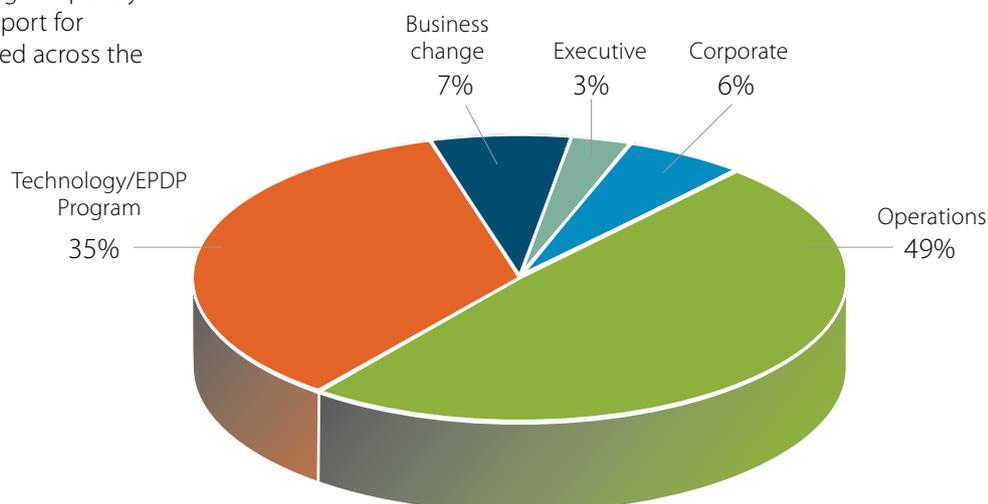
#### Treat everyone with respect

value and trust each other, to build a great working spirit

### OUR STAFF

At June 2019 Education Payroll had a total of 213 staff including temporary contract support for EPDP allocated across the company:

#### Where we work



Executive    Corporate    Operations    Technology/EPDP Program    Business change

Resources are carefully balanced between supporting our customers, and managing and developing the business. Education Payroll has a permanent employee base which is supplemented by key partners who provide third party support to a number of specialist areas across the business including the EPDP.

The Operations group has grown since June 2018, primarily due to the transfer of debt management and salary assessment teams into the Wellington office following closure of the Christchurch operation, which was run by a third party. Education Payroll aims to attract, develop and retain a variety of skill across Technology, Operations, Change, and Corporate disciplines.

Payroll advisers remain the heart of Education Payroll and the School Accounts Team model implemented in 2016. This model remains popular with customers and staff, with 76% overall customer satisfaction. Education Payroll expects to continue this customer-centric approach post the EdPay rollout in 2019/20. The strength of the relationship between our School Account Teams and school payroll administrators will always be key to the effective operation of the payroll.

## DEVELOPING OUR PEOPLE

Education Payroll supports the development and growth of its employees. New opportunities frequently arise within the organisation as the company matures and Education Payroll encourages current staff to build capability by moving into these roles. Our continuous improvement methods emphasise “on-the-job training”, allowing staff to “learn through doing”. Education Payroll is rapidly developing expertise in the *AGILE* methodology, DevOps, Shift Left, and program assurance which is presenting staff with unique opportunities to develop their skills in these areas and become recognised as subject matter experts within the public sector.

## STAFF ENGAGEMENT

Education Payroll undertook its fourth Staff Engagement Survey in June 2019. We achieved a high participation rate with over 78% of staff and third party providers completing the survey. The

survey was completed by a new provider so that Education Payroll could seek a deeper range of responses from individual interviews as well as the more standard online questionnaire. As in prior years, Education Payroll will use this data to improve our employee experience.

We continue to run a monthly staff award programme where employees are recognised for going ‘above and beyond’ and demonstrating our company values.

## HEALTH, SAFETY AND WELLNESS

The Health and Safety Committee meets regularly and encourages active participation from all staff in order to maintain a safe and supportive environment. We communicate health and safety tips to employees on a regular basis, while still maintaining a full suite of policies and procedures.

In 2018/19 Education Payroll particularly focussed on implementing policies and processes to help staff manage their mental health, domestic violence issues, and ensure a zero tolerance approach to all forms of bullying and harassment. This included training for mental health support officers, implementation of confidential in-house counselling and support, and operation of an anonymous suggestion/question box system.

## DIVERSITY AND INCLUSION

In 2018/19 Education Payroll started to implement its first “diversity and inclusion” plan to recognise the diversity of its staff and ensure all staff feel valued by the company. As a first step, Education Payroll has been working hard to recognise the diversity of its staff whether in ethnicity, gender, physical capability, sexual orientation, and in 2019/20 will seek to build greater practical inclusion for all these groups.

In particular Education Payroll’s workforce is approximately 55% female and assessing gender pay equity for this group will be a key deliverable in the 2019/20 year. 

# STATEMENT OF CORPORATE GOVERNANCE

## ORGANISATIONAL FORM

Education Payroll Limited was incorporated on 17 October 2014 and domiciled in New Zealand under the Companies Act 1993. It is a Crown-owned Company listed in Schedule 4A of the Public Finance Act 1989

The company is subject to certain provisions of the Crown Entities Act 2004 (CEA) and to the Official Information Act 1982 and the Ombudsmen Act 1975. The Company's day-to-day operations are primarily governed by the Companies Act regime.

Education Payroll's shareholding is 100% vested in the Crown. Its shareholders are the Minister of Finance and the Minister of Education with each holding 50% of the issued share capital.

## ACCOUNTABILITY

Education Payroll is accountable to its shareholding Ministers. The Commercial Operations unit (a business unit of the Treasury) will assist shareholding Ministers in monitoring the Company's performance against financial and non-financial measures. The Ministry contracts Education Payroll for payroll services in accordance with the Services Agreement.

## CROWN ENTITIES ACT 2004

Under section 45OA of the Public Finance Act 1989, some of the provisions of the CEA apply to the Company by virtue of it being listed in Schedule 4A of that Act. These include sections 139, 150 and 153 of the CEA, relating to preparing a Statement of Intent, an Annual Report and a Statement of Performance Expectations respectively.

## COMPANIES ACT 1993

Under this Act, the Board, each Director and each shareholding Minister have the rights, powers, duties and obligations set out in the Act, except to the extent that they are negated or modified, in accordance with the Act by the Company's Constitution.

## OPERATIONS

Education Payroll is required to operate within the functions, powers and constraints outlined above. Within this framework, the Company has considerable discretion how it goes about its day-to-day operations. This report from the Chair and Chief Executive of the Company contains information concerning the operations and performance of the Company for the financial year covered by this report.

## BOARD OF DIRECTORS

The Education Payroll Limited Board was established in August 2014. The Board comprises four non-executive Directors appointed by Shareholding Ministers, following Cabinet approval. The directors during the 2018/19 year were: Murray Jack (Chair), Sandi Beatie, Marcel van den Assum, and Cathy Magiannis.

**Murray Jack** is the chair of the board of the New Zealand Financial Markets Authority, Chartered Accountants Australia and New Zealand, and a Director of The New Zealand Initiative.

At Deloitte New Zealand, he previously served as Chief Executive (2005-2011) and Chairman (2011-14).

Murray has over 30 years' experience in management consulting working in the United Kingdom, New Zealand, Australia and throughout Asia. He has been an adviser to government ministers and chief executives around the world. He has particular strengths in helping organisations to establish good corporate governance and advising on business and technology transformation.

**Sandi Beatie QSO** brings her wide experience as an executive to governance roles. She has been a Director on the Board of Education Payroll Ltd for three years, is a member on the Risk and Assurance Committee for the Department of Prime Minister and Cabinet, and an independent member on the Te Ara Manaaki Programme Board (a digital transformation programme within the Department of Internal Affairs). Sandi has undertaken Performance Improvement Reviews (PIFs) within

the public sector and has led other inquiry or review related work. In a voluntary capacity she is a Trustee for Trade Aid, Kapiti.

Sandi recently completed a three year term as Chair of the Archives Council and as a member of the Ministerial Advisory Committee on Public Broadcasting. She has previously been a Director on the Board of IQANZ Ltd.

Prior to her retirement in April 2015, Sandi was the statutory Deputy State Services Commissioner and had previously held a range of senior roles in the public and private sectors.

**Marcel van den Assum** is a professional director, independent advisor and angel investor. His roles include Chairman of Flick Electric Ltd, Merlot.Aero Ltd and Wipster Ltd, Director of CropX Ltd and Yonix Ltd, and an Independent Advisory Board position with New Zealand Inland Revenue and MBIE.

He is a founding investor in LightningLab accelerator, and a member of the NZ Institute of Directors. He was founding Chairman of GreenButton Ltd, a New Zealand start up acquired by Microsoft Corporation.

Prior to his governance career, Marcel was CIO of New Zealand's largest company Fonterra for five years, and previous to that Managing Principal of Unisys New Zealand and held leadership roles in various global functions. He has worked across many industry sectors, government entities, and in most geographies. Alongside family and friends, art, music, mountain biking and snowboarding, food and travel are Marcel's interests.

**Cathy Magiannis** joined the board following two years with the Ministry of Education and Education Payroll Limited and brings a deep understanding of the education sector.

As Deputy Secretary of Education Payroll Services within the Ministry of Education, Cathy helped resolve the issues in delivery of payroll services and led the transition of the Novopay service to Education Payroll Limited. Cathy then took on the role of Chief Executive of Education Payroll Limited where she oversaw an intensive work programme to

build on the improvements that had already been made to the schools' payroll system and service.

Cathy's experience spans both the public and private sectors. She is a highly experienced leader and operational manager with proven programme delivery expertise. Prior to joining Education Payroll and the Ministry, Cathy was the Chief Executive of Gareth Morgan Investments Group. Before that, Cathy held a number of senior management roles at Inland Revenue including programme Director of KiwiSaver where she led the implementation of the Government's KiwiSaver initiative across a number of government agencies.

The Board has one standing committee:

#### **Audit and Risk Committee**

The Audit and Risk Committee was chaired by Cathy Magiannis in the 2018/19 year. The committee assists the Board in fulfilling its responsibilities with respect to internal controls, accounting policies, financial statements approval, risk management, and the nature, scope objectives and functions of external and internal audit. 

# STATEMENT OF RESPONSIBILITY

**The Board is responsible for the preparation of Education Payroll's financial statements and Statement of Performance and for judgements made in them.**

The Board has the responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurances as to

the reliability and integrity of financial and non-financial reporting.

In the Board's opinion, these financial statements and Statement of Performance fairly reflect the financial position and operations of Education Payroll for the year ended June 30 2019.

Signed on behalf of the Board.



Sandi Beatie QSO  
Board Chair

20 September 2019



Chartered Accountants

# INDEPENDENT AUDITOR'S REPORT

## TO THE READERS OF EDUCATION PAYROLL LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of Education Payroll Limited (the Company). The Auditor-General has appointed me, Stuart Mutch, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information of the Company on his behalf.

### Opinion

We have audited:

- the financial statements of the Company on pages 23 to 38, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expenses, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies; and
- the performance information of the Company on pages 4 to 7.

In our opinion:

- the financial statements of the the Company on pages 23 to 38:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information on pages 4 to 7:
  - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2019, including for the class of reportable outputs:
    - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 20 September 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

**Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of the directors for the financial statements and the performance information**

The directors are responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The directors are responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The directors are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Company, or there is no realistic alternative but to do so.

The directors' responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

**Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Company's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the directors' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included on pages 1 to 3 and 8 to 17, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Independence**

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit, we perform an independent assurance engagement of the education payroll services provided by Education Payroll Limited for the Ministry of Education. Other than this engagement and the audit, we have no relationship with or interests in the Company.



Stuart Mutch  
Ernst & Young  
Chartered Accountants  
On behalf of the Auditor-General  
Wellington, New Zealand.

# FINANCIAL STATEMENTS

The financial statements were approved by the Board and authorised for issue on 20 September 2019.

## STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES FOR THE YEAR ENDED 30 JUNE 2019

Year ended 30 June	Notes	Actual \$000 2019	Budget \$000 2019	Actual \$000 2018
<b>Revenue from exchange transactions</b>				
Sales of Services to Government		28,578	27,500	27,807
Insurance Recoveries relating to Kaikoura		-	-	(70)
<b>Total Operating Revenue</b>		<b>28,578</b>	<b>27,500</b>	<b>27,737</b>
<b>Expenses</b>				
Personnel Expenses	12	11,925	11,445	9,365
Third Party Support		4,486	3,474	6,300
Corporate Expenses	6	526	583	562
Auditor's Remuneration		67	48	48
Directors' Fees	11	139	140	139
Travel & Entertainment		54	70	48
Accommodation & Facilities		1,061	998	1,069
ICT Costs		5,075	6,484	5,072
Depreciation & Amortisation		3,729	3,753	3,856
<b>Total Operating Expenses</b>		<b>27,062</b>	<b>26,995</b>	<b>26,459</b>
<b>Non-operating items</b>				
Loss on asset disposal	2, 3	1,418	-	425
Interest Received		(150)	-	(4)
Interest expense		47	197	1
<b>Total Non-operating items</b>		<b>1,315</b>	<b>197</b>	<b>422</b>
<b>Total income for the period</b>		<b>201</b>	<b>308</b>	<b>856</b>

The accompanying notes should be read in conjunction with these financial statements.  
Explanations of major variances against budget are provided in note 17.

# FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

As at 30 June	Notes	Actual \$000 2019	Budget \$000 2019	Actual \$000 2018
<b>Current Assets</b>				
Cash and cash equivalents		2,740	5,018	3,477
Receivables from exchange transactions		102	24	62
Prepayments		2,475	2,165	1,060
<b>Total Current Assets</b>		<b>5,317</b>	<b>7,207</b>	<b>4,599</b>
<b>Non-Current Assets</b>				
Property, Plant and Equipment	2	1,597	1,561	1,846
Intangible Assets	3	12,921	11,817	16,020
Work In Progress		13,287	20,482	5,637
<b>Total Non-Current Assets</b>		<b>27,805</b>	<b>33,860</b>	<b>23,503</b>
<b>Total Assets</b>		<b>33,122</b>	<b>41,067</b>	<b>28,102</b>
<b>Represented by</b>				
<b>Current Liabilities</b>				
Accruals and Payables	4	2,946	2,799	2,161
Employee Entitlements		659	500	535
Other Provisions		-	-	90
<b>Total Current Liabilities</b>		<b>3,605</b>	<b>3,299</b>	<b>2,786</b>
<b>Non-Current Liabilities</b>				
Borrowings	5	4,000	13,000	-
<b>Total Non-Current Liabilities</b>		<b>4,000</b>	<b>13,000</b>	<b>-</b>
<b>Total Liabilities</b>		<b>7,605</b>	<b>16,299</b>	<b>2,786</b>
<b>Net Assets</b>		<b>25,517</b>	<b>24,768</b>	<b>25,316</b>
<b>Shareholders' Funds</b>				
Capital Contributions	16	25,520	25,520	25,520
Retained Earnings		(3)	(752)	(204)
<b>Total Shareholders' Funds</b>		<b>25,517</b>	<b>24,768</b>	<b>25,316</b>

The accompanying notes should be read in conjunction with these financial statements.  
Explanations of major variances against budget are provided in note 17.

# FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Actual \$000 2019	Budget \$000 2019	Actual \$000 2018
<b>Opening Balance as at 1 July</b>	25,316	24,460	24,460
Movements:			
Total Comprehensive Income for the Year	201	308	856
<b>Balance as at 30 June</b>	<b>25,517</b>	<b>24,768</b>	<b>25,316</b>

*The accompanying notes should be read in conjunction with these financial statements.*

# FINANCIAL STATEMENTS

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

Year ended 30 June	Notes	Actual \$000 2019	Budget \$000 2019	Actual \$000 2018
<b>Cashflows from Operating Activities</b>				
Receipts from Sales to the Ministry of Education		28,336	27,500	28,033
Receipts from Interest		150	-	4
Receipts from Other Income		191	-	10
<b>Cash inflows from Operating Activities</b>		<b>28,677</b>	<b>27,500</b>	<b>28,047</b>
Payments to Suppliers		12,240	11,800	14,112
Payments to Employees		11,439	11,445	9,283
<b>Cash outflows from Operating Activities</b>		<b>23,679</b>	<b>23,245</b>	<b>23,395</b>
<b>Net cash inflows from Operating Activities</b>	8	<b>4,998</b>	<b>4,255</b>	<b>4,652</b>
<b>Cashflows from Investing Activities</b>				
Payments:				
Investment in Tangible and Intangible Assets		9,688	9,904	6,750
<b>Cash Outflows from Investing Activities</b>		<b>9,688</b>	<b>9,904</b>	<b>6,750</b>
<b>Net Cash Outflows from Investing Activities</b>		<b>9,688</b>	<b>9,904</b>	<b>6,750</b>
<b>Cashflows from Financing Activities</b>				
Receipts:				
Proceeds from Borrowings		4,000	7,000	-
<b>Cash Inflows from Financing Activities</b>		<b>4,000</b>	<b>7,000</b>	<b>-</b>
Payments:				
Repayments of borrowings		-	-	114
Interest on borrowings		47	197	-
<b>Cash Outflows from Financing Activities</b>		<b>47</b>	<b>197</b>	<b>114</b>
<b>Net Cash Inflows/(Outflows) from Financing Activities</b>		<b>3,953</b>	<b>6,803</b>	<b>(114)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(737)</b>	<b>1,154</b>	<b>(2,212)</b>
Cash and cash equivalents at beginning of the Year		3,477	3,864	5,689
<b>Cash and cash equivalents at the end of the Year</b>		<b>2,740</b>	<b>5,018</b>	<b>3,477</b>
<b>Represented by:</b>				
Cash at Bank		2,740	5,018	3,477
		<b>2,740</b>	<b>5,018</b>	<b>3,477</b>

The accompanying notes should be read in conjunction with these financial statements.  
Explanations of major variances against budget are provided in note 17.

# NOTES TO THE FINANCIAL STATEMENTS

## STATEMENT OF ACCOUNTING POLICIES

### Reporting Entity

Education Payroll Limited (EPL) is a Crown entity as defined by the Crown Entities Act 2004 and listed in Schedule 4A of the Public Finance Act 1989. The company resides in New Zealand and operates under the Companies Act 1993. The Financial Statements disclosed are for the period 1 July 2018 to 30 June 2019.

EPL's primary objective is to deliver school payroll service to the Ministry of Education and the sector that is accurate and on time. As such, EPL does not operate to make a financial return and therefore is a Public Benefit Entity. In addition, EPL administers two trust accounts on behalf of the Ministry of Education related to the provision of sector payroll services.

### Basis of Preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

### Statement of Compliance

The financial statements have been prepared in accordance with the Financial Reporting Act 2013, which requires compliance with generally accepted accounting practice in New Zealand ("NZ GAAP").

The financial statements of the Company comply with Public Benefit Entity (PBE) standards and have been prepared in accordance with Tier 1 PBE standards.

### Budget Figures

EPL's 2018/19 budget was adopted by the Board on 18 April 2018.

### Basis of Measurement

The financial statements have been prepared on a historic cost basis except where specifically stated in these accounting policies.

### Presentation Currency

The financial statements are presented in New Zealand dollars, all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

### Changes in Accounting policy

There have been no changes in accounting policies since the date of the last audited financial statements. All policies have been applied on a basis consistent with the previous year.

## SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements as set out below have been applied consistently in the preparation of these financial statements.

### Revenue from Exchange Transactions

Payroll services provided to the Ministry of Education on commercial terms are exchange transactions.

Revenue from services provided by seconded employees to other government departments are exchange transactions.

Unbilled revenue at year end is recognised in the Statement of Financial Position as receivables from exchange transactions. Revenue from the provision of payroll services and seconded employees are recognised when the following criteria are met:

- significant risks and rewards of the services have passed to the buyer
- services have been delivered, and
- the amount can be measured reliably and it is probable that the service potential associated with the transaction will flow.

### Foreign Currency Transaction

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in surplus or deficit.

### Leases

#### Operating Lease

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an assets to the lessee.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

### Financial Instruments Presentation

Financial assets and financial liabilities are recognised when Education Payroll becomes a party to the contractual provisions of the financial instrument.

Education Payroll derecognises a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when the rights to receive cash flows from the asset have expired or are waived, or Education Payroll has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:

- Education Payroll has transferred substantially all the risks and rewards of the asset; or
- Education Payroll has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### Cash and Cash Equivalents

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Loans and Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost less any allowance for impairment.

### Financial Liabilities

Education Payroll's financial liabilities include trade and other creditors, and borrowings that pertain to Education Payroll's Crown Loan.

The Crown granted EPL a loan facility of up to \$13.2 million on 13 December 2017. The loan facility is secured over all property of EPL. Multiple drawdowns can be made against this facility. The advance maturity date is fixed at the time of each drawdown. The repayment of all drawdowns is due by 30 June 2024.

The interest rate applicable to each drawdown is fixed at the time of drawdown and accrues daily. Interest is capitalised in proportion to its utilisation in the development of work in progress. Interest from short term investment of excess funds is offset against the cost of borrowing before capitalisation. The cost of borrowing is expensed when developments are completed and in use.

### Property, Plant and Equipment

Property plant and equipment asset classes consist of office equipment, furniture & fittings, ICT equipment and leasehold improvements.

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

The cost of an item of property, plant and equipment is only recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to Education Payroll and the cost of the item can be measured reliably.

Where an asset is acquired at no cost, or for a nominal cost, the asset will be recorded at fair value at the date of acquisition when control of the asset is obtained.

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to Education Payroll and the cost of the item can be measured reliably.

The costs of servicing property, plant and equipment are recognised in the Statement of Comprehensive Revenue and Expenses as they are incurred.

### Work in Progress

Assets under construction are recognised at cost within non-current assets and are not depreciated.

### Gains and Disposals

Gains and losses on disposals are determined by comparing the proceeds of disposal with the carrying amount of the asset. Gains and losses on disposal are included in the Statement of Comprehensive Revenue and Expenses.

## Depreciation

Depreciation on property, plant and equipment (excluding work in progress) is calculated on a straight line basis, from the time the asset is in the location and condition necessary for its intended use. This basis allocates the cost or value of the asset, less its residual value, over its estimated useful life. The depreciation method, estimated useful lives and residual values of property, plant and equipment are reviewed annually to assess appropriateness.

The following estimated useful lives are used in the calculation of depreciation:

Office equipment	2 to 6 years
Furniture & fittings	3 to 10 years
ICT equipment	2 to 10 years
Leasehold improvements	3 to 6 years

## Intangible Assets

### *Software Acquisition and Development*

Software is a finite life intangible and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the intangible asset.

Software in development is held in work in progress until completed, at which point it is transferred to the intangible assets.

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing.

Costs that are directly associated with the development of software are classified as an intangible asset when the following criteria are met:

- it is feasible to complete the development
- it can be demonstrated how the development can enhance or generate future economic benefit in a probable manner
- the expenditure attributable during its development can be reliably measured.

Other development expenditure that does not meet the above criteria is recognised as an expense.

The following amortisation rates are used in the calculation of amortisation:

Software Licenses	6 to 10 years
Developed Software	2 to 10 years
Purchased Software	1 to 9 years
Other Intangibles	2 to 5 years

## Accruals and Payables

Creditors and other payables are non-interest bearing and are normally settled on 20th of the following month, therefore the carrying values of creditors and other payables approximate their fair value.

## Employment Entitlements

Employment entitlements that Education Payroll expects to be settled within 12 months of balance date are measured at nominal value on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date; annual leave earned but not yet taken at balance date; expected to be settled within 12 months.

## Equity

Equity is the shareholder's interest in Education Payroll, measured as the difference between total assets and total liabilities.

100 shares were issued in 2014 to the Minister of Finance and Minister of Education. The shares have no par value and have not been fully paid.

## Goods and Services Tax

All items in the financial statements are stated exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST - inclusive basis.

Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the statement of financial position. The net GST paid to or received from Inland Revenue, including the GST relating to investing and financing activities, is classified as operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

## Income Tax

Education Payroll is exempt from income tax. Accordingly, no provision has been made for income tax.

## Cost Allocation

Education Payroll has provided the full cost of its output measured on a full accrual accounting basis. Education Payroll provides a single output – the delivery of the schools' payroll service.

### **Critical Accounting Estimates and Assumptions**

In preparing these financial statements, estimates and assumptions have been made based on historical experience and other factors that are considered to be relevant to the reported amounts of revenues, expenses, assets and liabilities at the end of the reporting period. The uncertainty from these assumptions and estimates could result in outcomes that may result in a material adjustment to the carrying amounts of assets and liabilities.

#### ***Estimating useful lives and residual values of property, plant and equipment***

Each year the useful lives and residual values of property, plant, and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant, and equipment requires a number of factors to be considered such as the physical condition of the asset, expected period of use of the asset by Education Payroll and expected disposal proceeds from the write-off of these assets.

An incorrect estimate of the useful life or residual value will affect the depreciation expense recognised in the surplus or deficit and the carrying amount of the asset in the statement of financial position. Education Payroll minimises the risk of this estimation uncertainty by:

- physical inspection of assets
- asset replacement programs

#### ***Intangible Assets recognition & measurements***

Values are inherently subjective, and require the use of judgement.

Intangible Assets that qualify for recognition shall initially be recognised at cost. Cost is deemed to be at fair value where an intangible asset is acquired at no cost or nominal value. After initial recognition, a reporting entity shall choose either the cost model or the revaluation model as its accounting policy, and shall apply that policy to an entire class of Intangible Assets.

Determining the useful life of an asset also involves judgement. Product Owners are requested to explicitly advise on appropriate useful lives over which asset components should be amortised for accounting purposes. This may require the Product Owner to seek the professional assistance of other experts such as engineers, developers or other technical experts.

Intangible assets acquired by Education Payroll are initially recognised at their fair value at acquisition date. After initial recognition these intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

Developed software costs include external costs, wages and overheads that are directly attributable to the software development. Software and licenses received through capital injection were initially recognised at fair value at transfer date on the basis it is probable that they will generate future economic benefits for the entity. Fair value was determined using costing information available taking into consideration relevant indicators of impairment.

#### ***Classification of expenditure***

Determining whether expenditure is classed as capital or operating expenditure requires judgement as to whether the costs is likely to provide future economic benefits to Education Payroll over a number of years which results in the creation, purchase or improvement of an asset.

Judgement is required on various aspects that include, but are not limited to, the life of the asset, the service potential or capability of that asset, whether or not an enhancement to an existing asset is significant and quantifiable to be considered an improvement, and determining the appropriate depreciation rate.

#### ***Provisions***

Specific provisions for historic liabilities have been raised where objective evidence exists. Calculations are determined using historical experience and management's experience of economic stress factors. Key macroeconomic assumptions considered in the provisioning assessment are make-good costs associated to the lease properties.

#### ***Going Concern***

To facilitate the requirement for working capital and capital investment funding during the Education Payroll Development Programme, Management have secured a line of credit from The Crown, acting through the New Zealand Debt Management Office, a department of The Treasury. Details are included in Note 5 "Borrowing facilities". ■■

## 1. SALES OF SERVICES TO GOVERNMENT

### Rendering Services – full cost recovery

Under the new Service Level Agreement dated December 2017, Education Payroll are operating

under a Fixed Pricing Schedule. Revenue from the rendering of services is recognised by the completion of the fortnightly pay. Completion is measured at the end of each month when the full cost of running the service is captured.

## 2. PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2019	\$000 Furniture & Fittings	\$000 ICT Equipment	\$000 Office Equipment	\$000 Leasehold Improvements	\$000 Total
Opening Cost	404	1,930	99	320	2,753
Additions	75	366	11	60	512
Disposals	(21)	(725)	(95)	-	(841)
Closing cost	458	1,571	15	380	2,424
Less accumulated depreciation					
Opening accumulated depreciation	(52)	(768)	(58)	(29)	(907)
Depreciation for the year	(73)	(441)	(11)	(66)	(591)
Accumulated depreciation written off on disposal	5	602	64	-	671
Closing accumulated depreciation	(120)	(607)	(5)	(95)	(827)
<b>Closing balance at 30 June 2019</b>	<b>338</b>	<b>964</b>	<b>10</b>	<b>285</b>	<b>1,597</b>

Year ended 30 June 2018	\$000 Furniture & Fittings	\$000 ICT Equipment	\$000 Office Equipment	\$000 Leasehold Improvements	\$000 Total
Opening Cost	314	2,246	106	34	2,700
Additions	233	763	-	320	1,316
Disposals	(143)	(1,079)	(7)	(34)	(1,263)
Closing cost	404	1,930	99	320	2,753
Less accumulated depreciation					
Opening accumulated depreciation	(55)	(1,161)	(54)	(24)	(1,294)
Depreciation for the year	(52)	(464)	(9)	(30)	(555)
Accumulated depreciation written off on disposal	55	857	5	25	942
Closing accumulated depreciation	(52)	(768)	(58)	(29)	(907)
<b>Closing balance at 30 June 2018</b>	<b>352</b>	<b>1,162</b>	<b>41</b>	<b>291</b>	<b>1,846</b>

### 3. INTANGIBLE ASSETS

Year ended 30 June 2019	\$000 Developed Software	\$000 Purchased Software	\$000 Software Licences	\$000 Other Intangibles	\$000 Total
Opening Cost	13,315	60	8,882	5,204	27,461
Additions	504	52	-	731	1,287
Disposals	(1,115)	-	(26)	(594)	(1,737)
Closing cost	12,704	112	8,856	5,341	27,013
Less accumulated amortisation					
Opening accumulated amortisation	(4,593)	(60)	(3,925)	(2,862)	(11,440)
Amortisation for the year	(1,492)	(6)	(562)	(1,078)	(3,138)
Accumulated amortisation written off on disposal	229	-	17	240	486
Closing accumulated amortisation	(5,856)	(66)	(4,470)	(3,700)	(14,092)
<b>Closing balance at 30 June 2019</b>	<b>6,848</b>	<b>46</b>	<b>4,386</b>	<b>1,641</b>	<b>12,921</b>

Year ended 30 June 2018	\$000 Developed Software	\$000 Purchased Software	\$000 Software Licences	\$000 Other Intangibles	\$000 Total
Opening Cost	10,217	60	8,882	4,772	23,931
Additions	3,162	-	-	520	3,682
Disposals	(64)	-	-	(88)	(152)
Closing cost	13,315	60	8,882	5,204	27,461
Less accumulated amortisation					
Opening accumulated amortisation	(3,119)	(60)	(3,077)	(1,923)	(8,179)
Amortisation for the year	(1,502)	-	(848)	(949)	(3,299)
Accumulated amortisation written off on disposal	28	-	-	10	38
Closing accumulated amortisation	(4,593)	(60)	(3,925)	(2,862)	(11,440)
<b>Closing balance at 30 June 2018</b>	<b>8,722</b>	<b>-</b>	<b>4,957</b>	<b>2,342</b>	<b>16,021</b>

### 4. ACCRUALS AND PAYABLES

	\$000 2019	\$000 2018
Creditors	1,886	1,546
Accrued expenses	1,060	614
<b>Total creditors and other payables</b>	<b>2,946</b>	<b>2,160</b>

Payables are non-interest bearing and are settled on 30-day terms. Therefore, the carrying value of creditors and payables approximates their fair value.

## 5. BORROWINGS FACILITY

	Interest rate	\$000 2019	\$000 2018
As at 30 June			
August 2018 drawdown	5.13%	2,000	-
December 2018 drawdown	4.94%	2,000	-
Total Crown loan		4,000	-
Represented by:			
Current		-	-
Non-current		4,000	-
<b>Total Borrowings</b>		<b>4,000</b>	<b>-</b>
The amount of borrowing costs capitalised during the year		92	-

Education Payroll entered into an agreement with the New Zealand Debt Management Office, a department of The Treasury, in December 2017 to draw on a \$13.2m Crown loan. The loan is required to maintain adequate working capital and support investment in intangible assets created during the Education Payroll Development Programme.

The period of the loan is 6.5 years, the facility termination date being 30 June 2024. The drawdown on the loan will be in multiples of \$2m or remaining balance of the loan. Each drawdown will have a unique repayment date agreed at the date of drawdown. Each drawdown will attract interest at the aggregate of the swap rate and the margin for that advance.

## 6. CORPORATE EXPENSES

	\$000 2019	\$000 2018
<b>Corporate Expenses</b>		
Bank Fees	-	1
Fringe Benefit Tax	9	(26)
Insurance	78	70
Mail/Courier	9	37
Other Corporate Costs	136	104
Payslip Printing and Postage	242	300
Stationery, Printing & Photocopying	42	54
Catering Costs	6	12
Other: Cost Recovery Expenses	4	10
	<b>526</b>	<b>562</b>

## 7. CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amount of financial instruments presented in the Statement of Financial Position relate to the following categories of assets and liabilities:

	\$000 2019	\$000 2018
<b>Loans and receivables:</b>		
Cash and cash equivalents	2,740	3,477
Receivables from exchange transactions	102	62
	<b>2,842</b>	<b>3,539</b>
<b>Financial liabilities at amortised costs:</b>		
Accruals and other payables	2,946	2,160
Borrowing	4,000	-
	<b>6,946</b>	<b>2,160</b>

## 8. RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	\$000 2019	\$000 2018
Net income	<b>201</b>	<b>856</b>
<b>Add non-cash items</b>		
Depreciation and amortisation expense	3,730	3,856
Loss on disposal	1,418	425
Other non-cash items	237	30
<b>Net movements in non-cash items</b>	<b>5,385</b>	<b>4,311</b>
<b>Add/(deduct) movements in statement of financial position Items</b>		
Trade Receivables	22	312
Accrued Income	(73)	(5)
Prepayments	(1,415)	(31)
Trade and Other Payables	351	(166)
Accruals & Provisions	358	(691)
Employment Entitlements	122	65
<b>Net movements in working capital items</b>	<b>(635)</b>	<b>(516)</b>
<b>Add: items classified as investing activities</b>		
Interest paid on borrowing	47	1
<b>Net Cash flow from Operating Activities</b>	<b>4,998</b>	<b>4,652</b>

## 9. CAPITAL COMMITMENTS

Education Payroll has contracted commitments for the development of property, plant and equipment and intangible assets as at 30 June 2019 of \$69,075 (compared with \$221,600 in 2018).

## 10. OPERATING LEASES AS LESSEE

Future minimum rent payable under operating leases as at 30 June is as follows:

<b>As at 30 June</b>	<b>\$000 2019</b>	<b>\$000 2018</b>
Not later than one year	738	700
Later than one year and not later than five years	2,249	2,386
Later than five years	-	-
<b>Total non-cancellable operating leases</b>	<b>2,987</b>	<b>3,086</b>

EPL moved to new leased premises in July 2017. The new head lease is for six-years. The lease for an additional half floor at the new premises was negotiated and commenced 1 July 2018. This lease co-terminates with the original lease and is for an initial period of five years.

Education Payroll leases office premises and office equipment in the normal course of its business. The majority of these leases are for premises which have a non-cancellable leasing period ranging from five to six years.

## 11. BOARD OF DIRECTOR'S REMUNERATION

The total value of remuneration paid or payable to each Board member during the year is tabled below.

	<b>\$000 2019</b>	<b>\$000 2018</b>
Murray Jack (Chair)	55	55
Cathy Magiannis	28	27
Marcel van den Assum	28	27
Sandi Beatie	28	27
<b>Total Board member remuneration</b>	<b>139</b>	<b>136</b>

The board of EPL is comprised of four directors; Murray Jack (Chair), Cathy Magiannis, Marcel van den Assum and Sandi Beatie.

Murray Jack retired as the Chairman of the Board in July 2019 and has been succeeded by Sandi Beatie. Colin MacDonald has been appointed as a director from 1 August 2019.

EPL maintains an interest register to identify and manage conflicts of interest.

EPL has Directors' Liability and Professional Indemnity insurance cover in respect of the liability or costs of Board members and employees.

The Directors' fees for the financial year included a special fees component amounting to 50% of standard board fees. This was approved by shareholding Ministers in recognition of the additional expectations and time commitments placed on directors during the Company's establishment period.

## 12. EMPLOYEE REMUNERATIONS

	\$000 2019	\$000 2018
Wages and salaries	10,790	8,314
Other personnel costs	1,135	1,051
<b>Personnel Expenses</b>	<b>11,925</b>	<b>9,365</b>

The amounts above include the remuneration of key management personnel as defined below.

The table below shows total remuneration received by EPL employees which is equal to or exceeds \$100,000 per annum during the year ended 30 June 2019.

\$ Remuneration band	2019 Number of Employees	2018 Number of Employees
390,000 to 399,999	1	-
320,000 to 329,999	1	-
300,000 to 309,999	-	1
270,000 to 279,999	1	-
260,000 to 269,999	1	-
240,000 to 249,999	-	1
220,000 to 229,999	2	-
190,000 to 199,999	-	1
180,000 to 189,999	-	1
160,000 to 169,999	3	2
150,000 to 159,999	1	2
140,000 to 149,999	1	-
130,000 to 139,999	3	1
120,000 to 129,999	2	2
110,000 to 119,999	-	1
100,000 to 109,999	3	2

During the year ended 30 June 2019, two employees received compensation (2018: nil) and other benefits in relation to cessation totalling \$262,833 (2018: nil).

### Key Management Personnel

The key management personnel, as defined by PBE IPSAS 20 Related Party Disclosures, are the members of the governing body, which comprised of the Board of Directors (4), Senior Management Team (5) and the Chief Executive, which constitutes the governing body of the company. The aggregate remuneration of key personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration is as follows:

	\$000 2019	\$000 2018
Senior management	1,697	1,269
Board	139	136
Number of persons recognised as key management personnel	10	8

## 13. RELATED PARTY TRANSACTIONS

During the course of the year an employee was seconded to Oranga Tamariki. Income from the recharge of their employment costs is included under receipts from Other Income in the Cashflow Statement. Their remuneration is included in Personnel Expenses in the Statement of Comprehensive Revenue and Expenses. An employee of Inland Revenue was seconded to Education Payroll during the course of the year. The cost of their recharge from Inland Revenue is included in Third Party Support in the Statement of Comprehensive Revenue and Expenses.

## 14. EVENTS AFTER REPORTING DATE

No events have occurred subsequent to balance date that would require recognition or disclosure in the financial statements.

## 15. FINANCIAL INSTRUMENT RISK

### Risk management objectives and policies

Education Payroll is exposed to various risks in relation to financial instruments. The company's financial assets and liabilities by category are summarised in note 7. The main types of risks are credit risk and liquidity risk.

Education Payroll's risk management policy is to ensure that it can adhere to its objectives in the long term in providing the New Zealand schools' payroll.

### Liquidity Risk

Liquidity risk is the risk that EPL may encounter difficulties in meeting financial liabilities as they fall due. EPL monitor and manage this risk through fulfilment of its treasury duties. Management regularly review its banking arrangements to ensure the best returns are achieved while maintaining liquidity levels to service its day to day operations. Refer to note 5 and note 7 for maturity profile of financial liabilities.

### Credit Risk Analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to Education Payroll. Education Payroll is exposed to this risk for various financial instruments, for example, by placing deposits. Education Payroll's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date.

The directors have assessed that no financial assets are impaired or past due for the reporting date under review and are of good credit quality. The credit risks for cash and cash equivalents are considered negligible, since the counterparty is a reputable bank with high quality external ratings.

## 16. EQUITY & CAPITAL MANAGEMENT

Capital contributions comprise assets from the settlement of Talent2 contract (\$19.52m), cash injection (\$6m) from the Crown and accumulated comprehensive revenue and expenses. The Ministry of Education and Talent2 reached an agreement to transfer the Novopay payroll service back to the Ministry effective 17 October 2014.

Education Payroll is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

In determining its capital management policy, the main objective of the Board is to ensure that the Company has sufficient funds to continue with its main purpose of generating the schools' pay.

Education Payroll's objective is to ensure that adequate returns are generated to fund the Company's day to day activities but also maintain a strong capital base and minimise its risk exposure.

## Shareholder's Equity

Contributed Equity	2019		2018	
	Shares	\$000	Shares	\$000
Issued at no par value and not fully paid ordinary shares	100	-	100	-

## 17. EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

### Statement of Comprehensive Income

Explanations for the significant variances between actual and budget expenditure are detailed below by revenue and expense type.

The primary factor contributing to the increase in revenue of \$1m is the request and completion of additional works from the Ministry of Education.

Operating expenditure is as anticipated, although there were significant changes in the area of spend as follows:

- The increase of Third Party Support costs, \$1m higher than budget, primarily reflects spend on supporting business operations that were not anticipated at the time the budget was approved.
- This is more than offset by reduced ICT costs, \$1.4m, reflecting reduced system support and licensing costs.

Non-operating items relate to assets being replaced by EPDP developments and EPL's move to a modern working environment.

### Statement of Financial Position

Explanations for the significant variances between actual and budget expenditure are detailed below by asset and liability type.

- Lower current assets by \$1.9m mainly due to lower cash and cash equivalents of \$2.2m as a result of slower drawdown against the Crown Loan than expected.
- Lower non-current assets by \$6m due to the timing of commitments on the EPDP project.
- Lower borrowings reflect the lower cash and cash equivalent balance and project spend. ■■

Incorporated in 2014 under the Companies Act 1993, EPL is a Crown-owned company, listed on Schedule 4A of the Public Finance Act 1989 and subject to the Crown Entities Act 2004, the Official Information Act 1982, the Ombudsmen Act 1975 and the Public Finance Act 1989.

**EDUCATION PAYROLL**  
Rārangi Utu ā-Mātauranga



**2019**