

STATEMENT OF PERFORMANCE EXPECTATIONS



2018/19

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2018/19

EDUCATION PAYROLL LIMITED

**STATEMENT OF PERFORMANCE
EXPECTATIONS**

STATEMENT OF PERFORMANCE EXPECTATIONS

This statement outlines the performance expectations of Education Payroll Limited (EPL) for the year ending 30 June 2019, covering both service performance and the prospective financial statements.

This Statement of Performance Expectations aligns with EPL's 2018-2022 Statement of Intent (SOI) and should be read in conjunction with it. The SOI provides more information about EPL's operating environment and capability, and sets out the organisation's vision and goals.

EPL's 2019 Annual Report will provide information on achievement against its performance expectations for 2018/19. 



WHO WE ARE AND WHAT WE DO

A business operation supporting New Zealand's schools

EPL is a Crown company, founded in 2014 to provide school payroll services. Ownership is held equally between two Shareholding Ministers, the Ministers of Finance and Education, with governance by a Crown-appointed Board of Directors.

As a commercial entity EPL must operate in a financially prudent and sustainable way, seeking efficiencies and improvements in how it delivers payroll services.

EPL's purpose is: To help schools deliver quality education for New Zealand

We make sure that teachers and support staff in New Zealand's primary, secondary and area schools are paid the right amount every fortnight. That's around 100,000 people in 2,500 schools – paid a total of \$4.6 billion each year.


Our aim is to make payroll tasks easier for schools and to enable them to focus on teaching and learning. Thus, we are supporting the productivity and effectiveness of the education sector.

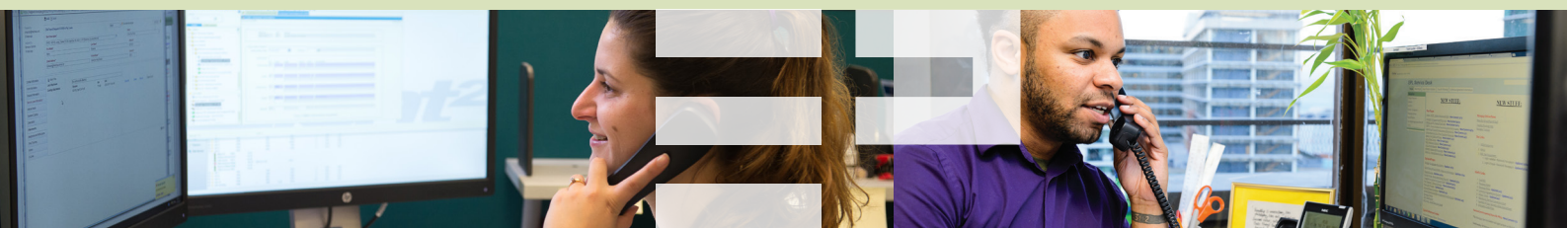
EPL provides reliable, accurate and efficient school payroll services for Government

Under our Services Agreement with the Ministry of Education (MoE) we fulfil a range of payroll and information management functions, working closely with school payroll administrators and principals across the country.

We make sure that school payroll information and entitlements are accurately recorded, school staff are paid correctly and on time, and relevant payroll information is accessible to schools and MoE.

The schools payroll is not a standard payroll and EPL provides additional services to support school Boards of Trustees in meeting their employer responsibilities. As well as processing pay instructions from school payroll administrators, our services include:

- providing guidelines and communications to schools
- answering queries from schools about their payroll
- providing school employees with payslips
- assurance and controls
- conducting salary assessments
- overpayment debt recovery
- payroll reporting to schools and MoE
- administering third party payments (e.g. ACC, KiwiSaver and student loans). 



SERVICE PERFORMANCE EXPECTATIONS

EPL delivers one Output which is: *Delivery of the schools' payroll service*

EPL has a clear focus on providing an accurate, reliable and timely payroll operation for NZ schools.

Our core services include:

- Delivery of the core payroll to teachers and support staff
- Management of debt related to payroll overpayments
- Assessment of teachers' qualifications and relevant experience to determine correct salaries
- Processing and administration of ACC claims on behalf of schools

Our Statement of Intent 2016-2020 includes measures related predominantly to the delivery of the overall payroll service. The measures below expand on these and include measures specific

to the core services above. These measures help us assess how well we are delivering services to schools and stakeholders.

The EPDP and continuous improvement contribute to the achievement of our single output. Separate measures of the success of the program are included in the long term strategic measures in the Statement of Intent and are reported against in the annual report and to the Ministry of Education.

The prospective financial statements represent the revenue and expenses for the output and these services.

	Forecast \$000 2018/19	Budget \$000 2017/18	Forecast \$000 2017/18
as at 30 June			
Revenue	27,500	24,810	27,712
Expenditure	27,192	24,810	27,712
Surplus/(Deficit)	308	0	0

EPL's Statement of Intent 2018-2022 describes our longer term performance outcomes, related to implementation of the Education Payroll Development Programme (EPDP) and other initiatives to add value in the education sector, as well as continuous improvement of the Schools' Payroll.



CORE PAYROLL SERVICE

Services which relate to the accurate provision of payments and entitlements to school employees. On average, we receive 12,000 payroll instructions every fortnight.

PERFORMANCE MEASURE	DESCRIPTION	2016/17 Actual	2017/18 Estimated Actual	2018/19 Standard
ACCURACY				
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%	99.8%	99.5%
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	Not measured	81%	80%
TIMELINESS				
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	99.5%	99.5%	99.5%
QUALITY				
Customer satisfaction	Percentage of survey respondents satisfied with the overall quality of the service delivery and the support they receive from EPL	70%	80%	75%

DEBT MANAGEMENT

Notification, recovery and administration of payroll related overpayments.

PERFORMANCE MEASURE	DESCRIPTION	2016/17 Actual	2017/18 Estimated Actual	2018/19 Standard
ACCURACY				
New overpayments created	Percentage reduction in new overpayments created compared with the previous year	Not measured	29.9%	15%
TIMELINESS				
Debt notification made on time	Percentage of Debtors receiving their first notification of debt within 15 working days of the debt being discovered ¹	Not measured	100%	99.5%

¹ Discovery is either the date of notification from the school/Ministry of Education/third party, or the date the overpayment is discovered by EPL.

SALARY ASSESSMENT

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

We receive approximately 8,000 assessments each year.

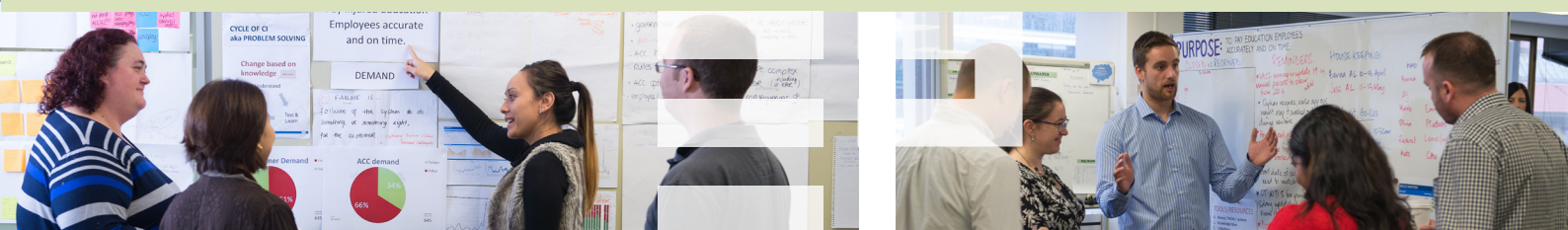
PERFORMANCE MEASURE	DESCRIPTION	2016/17 Actual	2017/18 Estimated Actual	2018/19 Standard
ACCURACY				
Notification of errors related to salary assessment determinations	Percentage of transactions received and completed that did not result in notification of errors from schools, employees, the Ministry of Education, or an overpayment related to incorrect salary assessment	Not measured	99.2%	99.5%
TIMELINESS				
Salary assessments processed on time	Accurate assessments will be processed within 15 working days from date of receipt	Not measured	100%	100%

ACC ADMINISTRATION

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

We process approximately 1,900 ACC claims each year.

PERFORMANCE MEASURE	DESCRIPTION	2016/17 Actual	2017/18 Estimated Actual	2018/19 Standard
ACCURACY				
Notification of errors related to ACC claims	Percentage of transactions received and completed that did not result in notification of errors from schools, employees, the Ministry of Education, ACC, or an overpayment related to the incorrect processing of an ACC claim	Not measured	99.9%	99.5%



PROSPECTIVE FINANCIAL STATEMENTS

The prospective financial statements have been developed for the purpose of fulfilling EPL's obligation, under the Crown Entities Act 2004, to prepare a Statement of Performance Expectations for Ministers and to publish this online. It is important to note that the forecast financial statements are estimates based on available information at the time of publication and contain inherent uncertainties. Actual financial results achieved for the forecast period are likely to vary from information presented and variations may be material.

In issuing the financial statements, the Board of EPL acknowledges its responsibility for the information presented, including the appropriateness of the assumptions used. The Board also acknowledges its responsibility for establishing and maintaining a system of internal control that is designed to provide reasonable assurance as to the integrity and reliability of EPL's performance and financial reporting.

These prospective financial statements are issued as at 18 April 2018 and based on information available at the time.



Murray Jack
Chair
Education Payroll Limited



Cathy Magiannis
Chair of Audit and Risk Committee
Education Payroll Limited

THE PROSPECTIVE FINANCIAL STATEMENTS HAVE BEEN DEVELOPED BASED ON A NUMBER OF ASSUMPTIONS, DETAILED BELOW, AND A FORECAST YEAR END POSITION FOR 2017/18 OF A BALANCED BUDGET.

The 2018/19 budget assumes a move from a balanced budget in 2017/18 to a surplus of \$0.308M in 2018/19. Within this forecast result there are counterbalancing elements of:

- the additional costs of the Education Payroll Development Programme (EPDP)
- the EPDP benefits realisation

Major variations in the level of operating revenue and expenditure between 2017/18 and 2018/19 are explained below:

REVENUE


- The revenue forecast in 2017/18 includes additional revenue received from completion of change requests from the Ministry of Education during the year for one-off service changes. Revenue of this type has not been projected for 2018/19 due to the uncertainty of this work.
- The 2017/18 revenue forecast includes an increased service fee from the Ministry of Education to fund work on the Education Payroll Development Program that was approved after completion of the 2017/18 budget.

EXPENDITURE

- Total Expenditure in 2018/19 reduces from 2017/18 levels due to the financial effect of the realisation of the initial benefits of the Education Payroll Development Program (EPDP).

- The Total Expenditure forecast for 2017/18 is increased over the 2017/18 budget level as it includes expenditure on the Education Payroll Development Program mobilisation and implementation phases which were approved after completion of the 2017/18 budget.

CASHFLOW AND FUNDING

- Cashflow projections assume maintenance of a minimum \$2M cash reserve throughout the period.
- The 2018/19 budget identifies a need to draw down \$13.0M of the total \$13.2M Crown loan facility. This may be subject to further replanning in May 2018, through refinement of the timing of EPDP activity and capital purchases.
- Repayment of loan drawdowns is profiled beyond the period of the budget and outyear forecasts, ie beyond 2020/21. Actual repayment dates can be selected by EPL at the time of drawdown. 



PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES FOR THE PERIOD ENDED 30 JUNE 2019

Period ended 30 June	Notes	Budget \$000 2018/19	Budget \$000 2017/18	Forecast \$000 2017/18
Revenue from exchange transactions				
Sales of Services to Government	4	27,500	24,810	27,712
Total Operating Revenue		27,500	24,810	27,712
Expenses				
Personnel Expenses		11,445	9,952	9,366
Third Party Support		3,474	2,747	6,574
Corporate Expenses		583	676	588
Auditor's remuneration		48	48	48
Directors fees		140	140	140
Travel & Entertainment		70	91	59
Accommodation & Facilities		998	1,183	1,066
ICT Costs		6,484	5,240	5,483
Depreciation & Amortisation	10, 13	3753	4,743	4,362
Other Costs			–	
Total Operating Expenses		26,995	24,820	27,686
Other comprehensive income				
Gain on asset disposal		–	–	–
Total other comprehensive income		–	–	–
Finance income				
Interest Received		–	12	4
Finance expenses				
Interest expense		197	2	30
Total Finance Costs		197	10	26
Total surplus/(deficit) for the period		308	0	0
Total comprehensive income		308	0	0

These financial statements should be read in conjunction with the accompanying Notes.

PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

As at 30 June	Notes	Budget \$000 2018/19	Budget \$000 2017/18	Forecast \$000 2017/18
Current Assets				
Cash and cash equivalents	9	5,018	4,886	3,864
Receivables from exchange transactions		24	–	24
Prepayments		2,165	1,029	2,047
Total Current Assets		7,207	5,915	5,935
Non-Current Assets				
Property, Plant and Equipment	10	1,561	897	1,907
Intangible Assets	13	11,817	16,838	15,134
Work In Progress	11	20,482	2,950	10,668
Total Non-Current Assets		33,860	20,685	27,709
Total Assets		41,067	26,600	33,644
Represented by				
Current Liabilities				
Borrowings	17	–	–	–
Accruals and Payables	16	2,799	1,740	2,684
Employee entitlements	18	500	400	500
Total Current Liabilities		3,299	2,140	3,184
Non-Current Liabilities				
Borrowings		13,000	–	6,000
Total Non-Current Liabilities		13,000	–	6,000
Net Assets		24,768	24,460	24,460
Shareholders' Funds				
Capital Contributions	19	25,520	25,520	25,520
Retained Earnings		(752)	(1,060)	(1,060)
Total Shareholders' Funds		24,768	24,460	24,460

These financial statements should be read in conjunction with the accompanying Notes.

PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2019

Period ended 30 June	Budget \$000 2018/19	Budget \$000 2017/18	Forecast \$000 2017/18
Cashflows from Operating Activities			
Receipts from Sales of Services for Government	27,500	28,532	27,712
Receipts from Interest Received	–	12	4
Other Income	–	–	–
	27,500	28,544	27,716
Payments to Suppliers	(11,800)	(12,234)	(14,760)
Payments to Employees	(11,445)	(12,453)	(9,366)
	(23,245)	(24,687)	(24,126)
Net Cash Inflows from Operating Activities	4,255	3,857	3,590
Cashflows from Investing Activities			
Payments:			
Purchase of Fixed Assets*	(9,904)	(4,110)	(11,273)
Net Cash (Outflows) from Investing Activities	(9,904)	(4,110)	(11,273)
Cashflows from Financing Activities			
Receipts:			
Proceeds from Capital Contributions	7,000	–	6,000
Payments:			
Repayments of Borrowings	–	(112)	(112)
Interest on Borrowings	(197)	–	(30)
	(197)	(112)	(142)
Net Cash (Outflows)/Inflows from Financing Activities	6,803	(112)	5,858
Net increase in cash and cash equivalents	1,154	(365)	(1,825)
Cash and cash equivalents at beginning of period	9	3,864	5,689
Cash and cash equivalents at the end of the period	5,018	4,886	3,864
Represented by:			
Cash at Bank	5,018	4,886	3,864
	5,018	4,886	3,864

These financial statements should be read in conjunction with the accompanying Notes.

*Assets include tangible and intangible assets

PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2019

	Budget \$000 2018/19	Budget \$000 2017/18	Forecast \$000 2017/18
Opening Balance	24,460	24,460	24,460
Movements:			
Capital Contributions	–	–	–
Total Comprehensive Income for the Period	308	–	–
Balance as at 30 June	24,768	24,460	24,460

These financial statements should be read in conjunction with the accompanying Notes.

EPL CAPITAL EXPENDITURE

	2018/19 Budget \$000	2017/18 Forecast \$000
Plant, Property & Equipment	3,635	2,379
Intangible Assets	6,269	8,894
Total	9,904	11,273

These financial statements should be read in conjunction with the accompanying Notes.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Education Payroll Limited (EPL), is a limited liability company incorporated on 27 August 2014. EPL was formed following a decision to transfer ownership and management of the schools' payroll service from Talent2 to a new government-owned company. The new company commenced operations on 17 October 2014 and resides in New Zealand under the Companies Act 1993. It is a Crown entity as defined by the Crown Entities Act 2004 and is listed in Schedule 4A of the Public Finance Act 1989.

EPL's purpose is to provide a payroll service to the Ministry of Education that ensures school payroll information and entitlements are accurately recorded, school staff paid correctly and on time, and payroll information is easily accessible to both the schools and the Ministry of Education. As such, EPL's principle aim is to provide services to the public, rather than make a financial return. Accordingly, EPL is designated as a Public Benefit Entity (PBE).

The Crown does not guarantee the liabilities of EPL in any way.

2. STATEMENT OF COMPLIANCE

The prospective financial statements are for the year ended 30 June 2019. They have been prepared in accordance with the Financial Reporting Act 2013, which requires compliance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand Financial Reporting Standard No. 42 – "Prospective Financial Statements".

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

3. PRESENTATION CURRENCY

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. REVENUE FROM EXCHANGE TRANSACTIONS

Revenues from payroll services provided to the Ministry of Education on commercial terms 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 is 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.

5. 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.

6. 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.

Accounts receivable are recognised at fair value. A provision for impairment of accounts receivable is made where there is objective evidence that EPL will not collect all amounts due according to the original terms of the receivable. When this occurs, the receivable is recorded at amortised cost, less provision for impairment. When the receivable is uncollectible, it is expensed in the Statement of Comprehensive Revenue and Expenses.

7. LEASES

Finance Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At commencement of the lease term, finance leases where EPL is the lessee are recognised as assets and liabilities in the statement of financial position, at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to surplus or deficit as interest expense over the period of the lease.

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.

8. FINANCIAL INSTRUMENTS PRESENTATION

Financial assets and financial liabilities are recognised when EPL becomes a party to the contractual provisions of the financial instrument. EPL's financial liabilities include trade and other creditors, borrowings that pertain to EPL's Finance Lease and against a loan facility provided by the Crown.

EPL de-recognises 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 EPL 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:

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

9. 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.

10. PROPERTY, PLANT AND EQUIPMENT

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

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 10 years
Furniture & fittings	3 to 12 years
ICT equipment	1 to 12 years
Leasehold improvements	1 to 11 years

11. WORK IN PROGRESS

Non-Current Assets under construction are recognised at cost within current assets and are not depreciated. Assets under construction are recognised as tangible or intangible assets when they are released for use to the target audience.

12. 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.

13. INTANGIBLE ASSETS

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 developments 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 8 years
Developed software	8–12 years
Purchased software	1 to 4 years
Other intangibles	6 years

14. GOOD 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 as exclusive of GST.

15. INCOME TAX

EPL is currently exempt from income tax. Accordingly, no provision has been made for income tax.

16. ACCRUALS AND PAYABLES

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

17. BORROWINGS

Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs. Interest due but not yet paid on the borrowings is subsequently accrued and added to the borrowings balance.

Borrowings are classified as current liabilities unless there has been an unconditional right to defer settlement of the liability for at least 12 months after balance date.

18. EMPLOYMENT ENTITLEMENTS

Employment entitlements that EPL 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 and annual leave earned but not yet taken at balance date, expected to be settled within 12 months.

19. EQUITY

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

20. COST ALLOCATION


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

21. CRITICAL ACCOUNTING JUDGMENTS ESTIMATES AND ASSUMPTIONS

In preparing these prospective financial statements EPL has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results and these differences may be material.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most significant assumptions reflected in these prospective financial statements are:

- Funding for payroll services delivered by EPL is through a Services Agreement with the Ministry of Education.
- The useful lives of intangible assets are predominantly based on the current term of the Ascender software licence, and the ten year business and financial projections included in the Detailed Business Case for the Education Payroll Development Programme. 

EDUCATION PAYROLL
Rārangi Utu ā-Mātauranga



2018