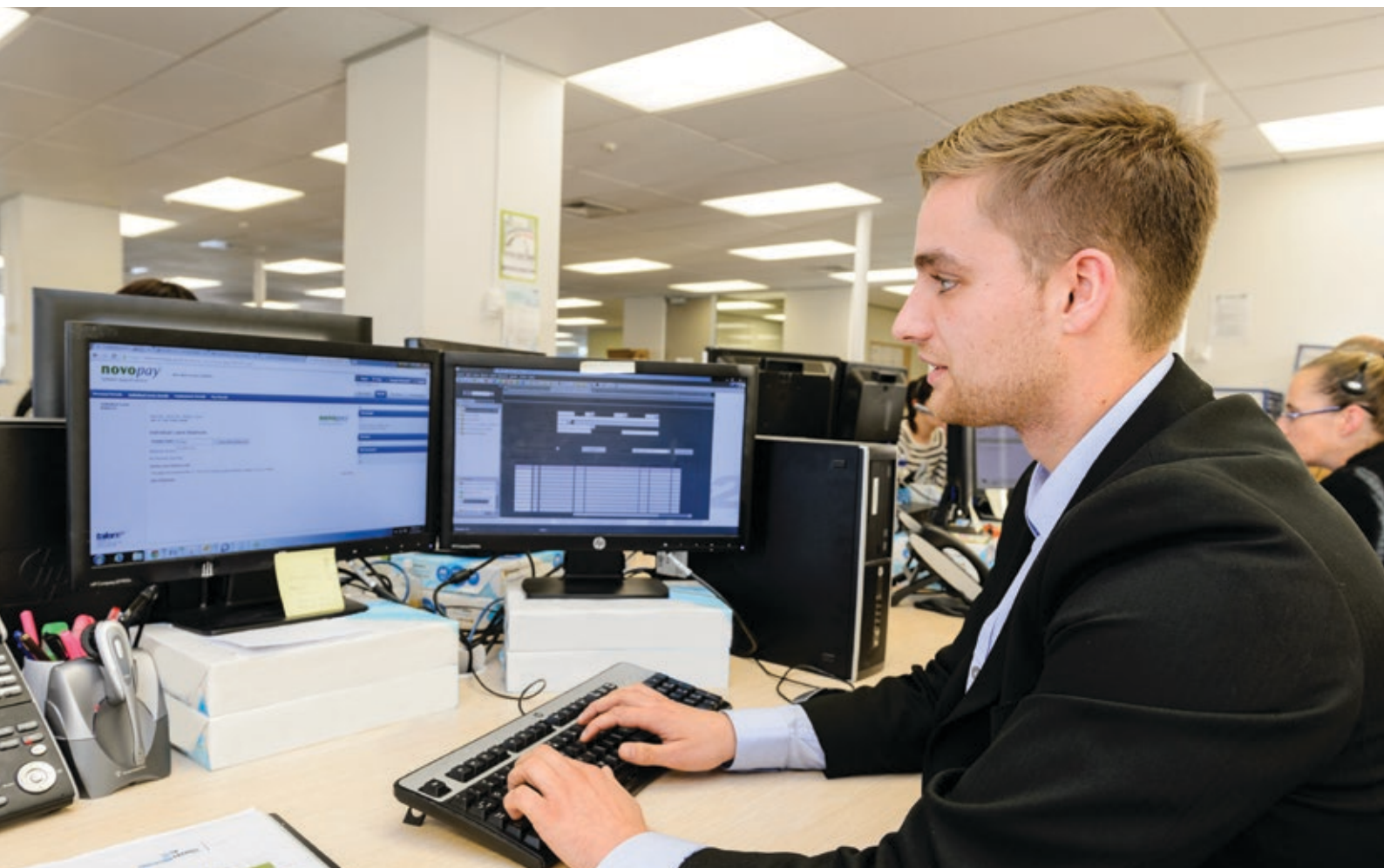


2015

EDUCATION PAYROLL LIMITED

STATEMENT OF INTENT




EDUCATION PAYROLL
LIMITED

2015

EDUCATION PAYROLL LIMITED

STATEMENT OF INTENT

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FOREWORD

We are pleased to present the first Statement of Intent (SOI) for Education Payroll Limited (EPL)

EPL is a new company. It was incorporated in August 2014 to take over the payroll services previously provided by Talent2 under the banner of Novopay.

It is widely known that Novopay had some serious system, design and implementation flaws. The Ministry of Education (the Ministry) invested significant additional resources to reduce day-to-day problems and put schools payroll on a stable path.

With schools payroll stabilised, EPL was established to focus solely on managing end-to-end school payroll services. We have clear accountabilities and expectations that school staff will get paid accurately and on time, and that schools will be supported in the right way to deliver on their payroll responsibilities.

As part of our establishment, Shareholding Ministers have indicated they expect EPL to:

- Continue to deliver reliable, accurate and timely pay each fortnight.
- Work closely with our staff to develop a sustainable culture, ensuring key staff are retained.
- Build a financially sustainable business model that can operate within the agreed contract levels. Deliver services to schools in accordance with our Services Agreement with the Ministry.
- Develop a roadmap to ensure our core ICT systems are stable, supportable and sustainable. In the end, these systems are fundamental to our ability to provide schools with the payroll services they expect.

We are well on the way to delivering on these expectations and have also commenced work on fulfilling key priorities set down by our Shareholding Ministers. These include further improving the accuracy of pay and entitlements to school staff and increasing the value for money of schools payroll.

Government will be looking at strategic options for the long term provision of payroll services, and we will need to factor possible options into our own strategic planning.

The Board of EPL is accountable to our Shareholding Ministers (the Minister Responsible for Novopay and the Minister of Finance) as set out in the Crown Entities Act 2004. This SOI shows how EPL will fulfil our statutory requirements under that Act. It sets out a picture of the results EPL is pursuing and how we intend to achieve and to measure our progress towards those results. ■■■




Dame Patsy Reddy
Chair

WHO WE ARE

EPL is a Crown company established to provide payroll services to New Zealand's schools. We were incorporated in August 2014 to take over the operation of the schools payroll service from Talent2 in October 2014. Ownership is held equally between two Shareholding Ministers, the Minister Responsible for Novopay and the Minister of Finance. EPL is governed by a Crown appointed Board of Directors

Our schools payroll is the largest payroll in New Zealand and one of the top 10 in Australasia. We pay around 90,000 schools' employees (principals, teachers and support staff) in 2,500 schools every fortnight. Approximately \$170 million is paid each pay period. At \$4.4 billion per annum, this comprises almost five per cent of government expenditure.

We are a new company with a clear focus on providing accurate, reliable and timely payroll. We have developed a new set of values to underpin how we deliver our services, how we interact with each other and how we relate to other stakeholders across the education sector. The Board, managers across the company, and our staff all embrace these values. 

EPL VALUES

We are committed to our customers

Quality is everyone's responsibility

We back each other to win

We learn and improve continually

We trust and respect each other

WHAT WE DO

EPL acts as a central payroll service for schools. Teaching and support staff are paid from our payroll system, Novopay. We enable the Secretary of Education to meet the payroll obligations set out in section 89 of the Education Act 1989

Every fortnight we make sure schools payroll is delivered and teachers and support staff are paid the right amount on time. We are responsible for all payroll processing, third party and customer service functions and all operational relationships, other than those retained by the Ministry due to delegations or other issues.

Our services include:

- Providing guidelines and communications to schools to assist them in fulfilling their payroll responsibilities
- Processing pay instructions received from school payroll administrators
- Answering questions from schools about Novopay
- Providing reports to schools on payroll activity
- Providing instructions for direct crediting of payroll

- Providing employees with a payslip
- Maintaining individual and schools payroll records
- Providing instructions for payments to third parties involved in payroll, such as IRD and ACC
- Recovery of overpayments
- Conducting salary assessments
- Processing of periodic payroll events

In accordance with our Services Agreement, we also provide the Ministry with a range of reports on schools payroll activity. This is required as part of the Ministry's role as the Government's lead advisor on education matters. It also helps the Ministry monitor our performance.

Appendix one contains further information on the purpose of EPL. ■■



HOW WE WORK

EPL's services are delivered from our Wellington and Christchurch Service Centres. The Wellington Service Centre contains a Pay Centre and Service Desk. The Christchurch Service Centre contains a Pay Centre, Salary Assessment Unit and Debt Management Unit. Our corporate, information technology, and executive functions are based in Wellington

While we provide a centralised payroll service, important aspects of the wider payroll environment are decentralised across individual schools around the country. School boards of trustees are the employers of the staff in those schools. Principals, who are accountable to these boards of trustees, are responsible for the day to day functioning of each school, including payroll administration.

One of our primary interfaces is with principals and their payroll administrators, through our Service Centre in Wellington. We interact with over 6,000 registered payroll administrators around the country. They provide the accurate and timely information to allow us to properly process pay instructions.

We acknowledge and value the diversity of schools and the differences in their operational processes. These differences underscore the importance of our

guidance material and communications to schools. These must be delivered in a way that assists those schools to fulfil their payroll responsibilities.

Our second significant interface is with the Ministry. The Ministry is a party to our Services Agreement. It has a sector stewardship position in education and school service integration responsibilities.

The Ministry is responsible for monitoring our service performance in accordance with the Services Agreement, and is no longer involved in supporting the day-to-day operation of payroll.

Our relationship with the Ministry will be on a more arms-length basis as we operate on a payment for output arrangement against defined service levels. ■■■





OUR CONTEXT

Education is a key area of emphasis for the Government. Delivering a reliable, timely and accurate payroll is fundamental to the proper functioning of schools

The Ministry has worked with its sector partners to develop a vision for schools payroll:

‘Provision of an efficient, integrated and future proofed service to boards of trustees which ensures their employees’ payroll information and entitlements are accurately recorded and they are paid correctly and on time.’

EPL is committed to playing its part to deliver that vision. To do that we have to meet the expectations of four stakeholder groups:

- Our shareholders – the Minister Responsible for Novopay and the Minister of Finance.
- The Ministry – on behalf of whom we provide payroll services to school boards of trustees.
- School boards of trustees – the employers of teaching and support staff across New Zealand’s schools.
- School employees – who expect to be paid accurately and on time.

Delivery of schools payroll is a complex undertaking because, unlike a conventional payroll, each school payroll is unique.

By way of illustration:

- Payroll is determined in part by 14 different collective agreements with a variety of different entitlements across those agreements.
- Teachers are paid from two different sources, the schools operating grant and teachers’ salaries, sometimes at the same time.
- Schools can save or ‘bank’ staffing entitlements to use at a later date (known as ‘banking staffing’).
- Staff receive a single consolidated pay slip regardless of how many schools they work for in a pay period.
- Service is accumulated at the individual employee level even though, in effect, they are employed, on a day to day basis, by individual schools.
- There are 1,500 possible unique rates of pay across those 14 collective agreements culminating in 10,000 possible permutations in each pay run.
- Around 13% of employees need some pay change every fortnight.



The distinctive characteristics of schools payroll mean that every fortnight we deliver around 2,500 individual payrolls (one for each school). These involve a complex set of inter-related business rules. The fortnightly cycle forms part of a complex annual cycle of payroll events which is matched to the school calendar year. The key points in that cycle are shown below in Figure 1.

The End of Year and Start of Year (EOY/SOY) zone deserves specific mention because of its significance to both schools and EPL.

EOY/SOY refers to the period between October and March when over 40% of school employees require changes to their payroll records. These are made to accurately reflect their status and to ensure they

are paid correctly. EOY/SOY takes place at a time when schools are closed for an extended holiday period, holiday payments are made, and a number of contract changes are implemented.

During this October to March window, EOY/SOY procedures become the predominant focus of all those involved in delivering payroll (both at schools and within EPL).

There is little capacity to introduce other changes to payroll processes or systems.

Accordingly, the improvements to business as usual mentioned in the next section of this document are most likely to be implemented during April to September. This is when we have a window to introduce process or system changes. ■■■

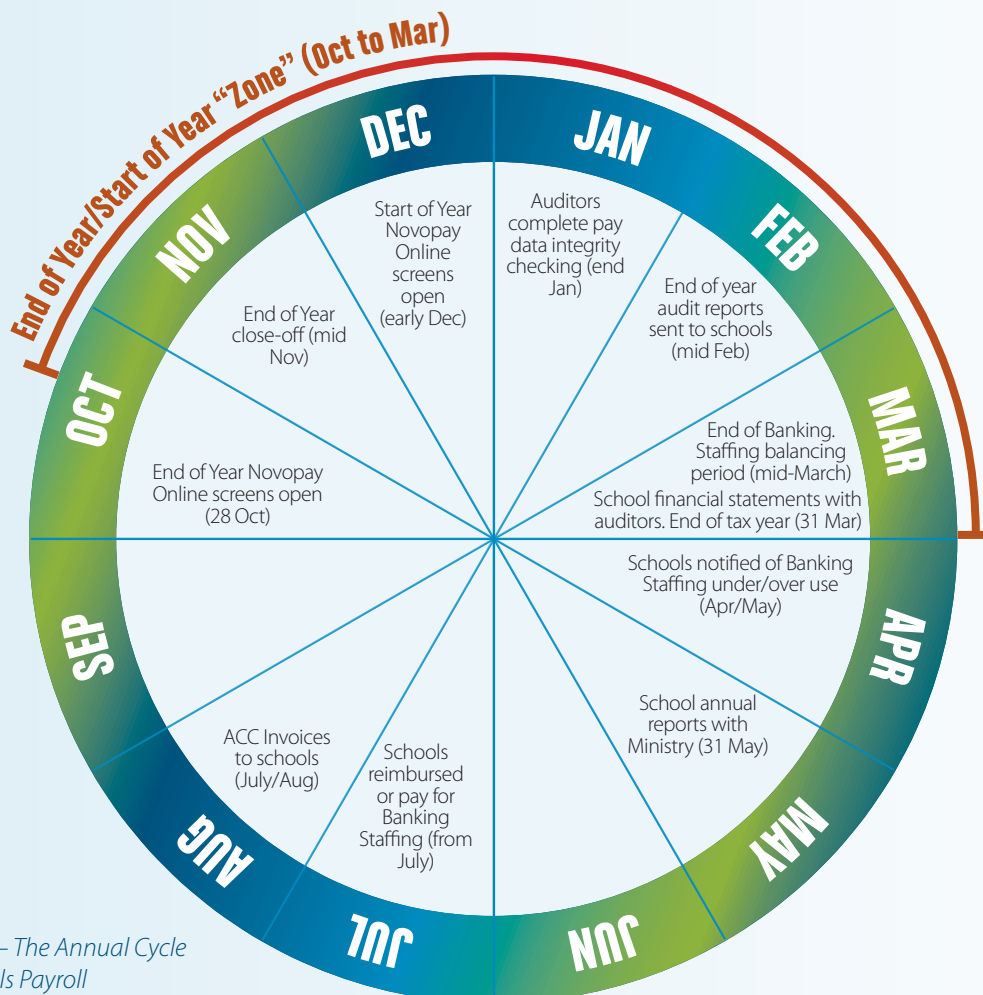


Figure 1 – The Annual Cycle of Schools Payroll

OUR IMMEDIATE FOCUS AND THE ROAD AHEAD

As part of our establishment EPL identified functions held by the Ministry when Novopay had delivery issues, which needed to be transferred to EPL. This was an important task given that, in some areas, the Ministry and EPL's predecessor organisation (Talent2) had collective responsibility for payroll delivery. We needed to be confident the right level of resources and expertise were available to EPL so we could provide the sector with a high level of service during the change process

With that task complete, we now need to ensure those former Ministry functions are well integrated into EPL so we can further improve our service to the sector. As part of that integration we will continue to implement a series of structural and process changes to leverage opportunities to improve our use of resources and quality disciplines.

One of these changes draws on the results of our technology structure review which was completed in Q3 of 2014/15. Implementation of these changes commenced in the last quarter of 2014/15 and will continue throughout 2015/16. We are using a phased implementation approach to manage the complexity of the structural change and to support the ongoing mitigation of risk across the business.

The fortnightly pay cycle touches all parts of EPL – from our Service Centre staff entering payroll instructions and answering queries from schools to our technology team who support each pay run. They ensure the payroll system is maintained to the required standard. Delivering the pay each fortnight takes up a significant portion of the EPL resource

base. Accordingly, we place a significant emphasis on the delivery of business as usual activities to the sector and we do this in the context of the immediate key priorities set by our Shareholding Ministers. These are to:

- Improve the accuracy of pay and entitlements received by school staff – we will pursue this priority through a set of performance improvement initiatives over the next 12 to 18 months designed to produce better pay outcomes.
- Improve the value for money – we will pursue this priority by developing the service model to better serve schools while operating within the terms and conditions and funding set out in our Services Agreement.

Turning to the road ahead, our Shareholding Ministers have also asked us to work closely with the Ministry, in its role as steward of the education system, to develop a long term strategic direction for schools payroll. ■■■



BETTER PAY OUTCOMES

Since Novopay go-live defects have been successfully fixed and the accuracy, timeliness and quality of pay to teachers and support staff improved. There is still work required to further improve the system and processes used to deliver the schools payroll

In the next 12 months we will focus on:

- implementing recommendations from the Controls Environment Review,
- the ongoing development and use of consolidated payroll information through system developments and
- improving the accuracy of leave balances and better supporting schools in managing employee leave.

Delivering more accurate pay and entitlements requires the introduction of a new set of processes and controls to:

- improve data quality,
- detect incorrect pay instructions (from schools and the Pay Centre),
- cleanse our payroll data more frequently and
- improve our support for auditors during their end-of-year audit on our control environment and data quality.

The Controls Environment Review has highlighted areas to improve. In Q1 of 2015/16 the Pay Centre Controls Project will implement some of the recommendations (Phase 1) and realise some of the benefits. Phase 2 will be implemented in Q2 and Q3 of 2015/16.

An important way the ongoing development of consolidated payroll information will support better pay outcomes will be to deliver a single point of reference for all information relating to 'stop pays' and overpayments. Stop pays are a process to stop the pay going through for an employee who is about to be overpaid, or who should not be paid at all.

The information, relating to stop pays and overpayments, is currently spread over multiple systems, is very resource intensive to manage and is prone to error. We are reliant on the sector to self-review payroll to identify anomalies when it would be preferable if we could detect and prevent those anomalies from occurring in the first instance. We will develop our systems and processes to provide a clean, consistent and well structured set of payroll adjustment data. This will allow us to properly support a range of other payroll activity based on accurate information on stop pays and overpayments, such as third party deduction refunds to schools and the Ministry. We expect this work to take place in Q1 and Q2 of 2015/16.

It is important schools feel confident their employees' leave entitlements and balances are correct, and that they have the right information to manage leave on an ongoing basis. The Leave Project has been addressing known leave problems in our system, some of which pre-dated Novopay. That project has already delivered improvements in leave entitlement calculations and balances through system changes implemented in June 2015.

The Leave Project will also take the opportunity to confirm leave bookings and balances with schools to ensure an agreed position so schools can manage leave going forward. The timing of this engagement with schools will be in Q1 of 2015/16. This is a significant business process change project that will involve us working directly with all schools. ■■■



BETTER VALUE

It is critical schools payroll is based on a financially sustainable model that delivers a value for money service. Delivering such a service requires us to improve how we work so we minimise the effort and cost currently incurred

In the next 12 months we will focus on:

- implementing the recommendations from the Debt Management Process Review and
- the rollout of an improved and less risky technology environment.

Initially Novopay resulted in many instances where teaching and support staff were inadvertently overpaid. With cooperation from the sector we have been successful in reducing the resulting debt. It is now timely to re-examine how we manage debt and how we provide better service to employees who find themselves overpaid.

The Debt Management Process Review Project will introduce improved tools to calculate and account for overpayment debt more effectively. It will support enhanced debt notification processes and systems. It will implement case management to improve collection rates and outcomes where debtors have difficulty making repayments. This body of work will support us in getting it right the first time and, importantly, will reduce the cost of our debt administration. We expect this work to commence in Q1 of 2015/16.

Our technology systems underpin the ongoing performance of our payroll service. We will address some of the current risks and issues in these systems by refreshing our desktop environment and leveraging Ministry systems and processes.

In refreshing our desktop environment we will implement a maintainable Windows 7 based desktop platform to meet the needs of EPL users and to support future EPL initiatives. The desktop refresh will be completed by the end of Q1 2015/16.

EPL has limited internal capability to operate ICT infrastructure services and we have previously engaged third parties to operate and manage this infrastructure on our behalf. EPL is looking at opportunities to minimise risk and is considering leveraging technology services through the Ministry. This would provide EPL with more robust technology systems and allow us to continue to improve policies, systems and processes while implementing good practice. The transition to the Ministry would be completed during Q2 2015/16. ■■■



ASSESSING OUR PERFORMANCE

EPL has 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 our work programme

Our Statement of Performance Expectations provides measures and targets for the year ending 30 June 2016.

We have also agreed with the Ministry, through the Services Agreement, a set of service levels which assesses our performance against the agreed services provided by EPL. These are outlined in Figure 2 below.

Performance is more than ensuring services are delivered on time and to the agreed level of quality. Performance also hinges on building and sustaining our organisational health and capability. We assess our performance in building that health and capability by how well we develop:

- our people, our leadership and our organisational culture,
- our business processes and technology that support our work and
- our approach to managing risk. ■■

Figure 2 – Service Levels

PERFORMANCE MEASURE	DESCRIPTION	STANDARD
ACCURACY		
All payments to eligible payees (permanent and temporary employees) will be accurately calculated.	% of employees paid excluding requests made, by exception, to correct payments to employees.	99.5%
Operational accuracy of the fortnightly payroll.	% of accurate payroll instructions submitted by a school, which are received on time and processed by EPL, within the appropriate pay period, excluding requests made, by exception, to correct payments to employees.	98%*
TIMELINESS		
Timely processing of payroll instructions submitted by schools	% of accurate payroll instructions submitted by a school that affect the fortnightly pay and are displayed on the school's fortnightly payroll report, as expected by the school, and processed by EPL within the appropriate pay period.	Baseline to be established in 2015/16
Percentage of payroll payments made on or before advised pay dates.	Bank files are provided on the day expected to enable payments to be made.	99.5%
QUALITY		
Customer satisfaction	% of people surveyed with a satisfaction rating at or above expectations.	Baseline to be established in 2015/16

*The standard for this performance measure is indicative as it is based on nine months of data. This figure will be refined throughout the 2015/16 year and confirmed for 2016/17.

PEOPLE, LEADERSHIP AND CULTURE

EPL's people capability vision is to attract, develop and retain staff with the capability needed to achieve high quality results for all stakeholders. As a newly established company it is essential EPL retains key staff and develops a new organisational culture that reflects the values described earlier in this document

EPL continue on a pathway of improvement, steadily building on and improving services. That said, there is significant potential for gains in productivity as we embrace the idea we 'back each other to win' and we strengthen relationships across the company, with the Ministry and the sector.

To achieve our people capability vision the focus for the 2015/2016 year is in the following key areas.

- Building a high performing culture
- Capability Development
- Supporting our leaders

The EPL Senior Management team is actively developing and implementing a shared vision for the desired culture and the way we work. At the centre of the EPL culture will be our constant belief in and our consistent demonstration of our values through behaviour, especially at the leadership level. To measure success in this area we will implement a staff engagement survey to enable us to benchmark our current state and measure improvements in the future.

EPL recognises the need to make the best use of the skills and strengths of all staff and our service providers with whom we work to provide an

efficient end to end payroll service to schools. To this end we are investing in developing our leaders as they drive improvements and productivity gains. We are embedding our new organisational structure by ensuring strong governance processes are in place and everyone understands their roles, accountabilities and responsibilities. We are implementing a new performance planning and review process. This includes performance measures with a greater line of sight to the Services Agreement to focus staff to achieve the results that really matter.

EPL is committed to being a good employer, providing an environment where employees feel valued and respected, where difference is celebrated and diversity encouraged. Our leaders are at the heart of making this a reality. To support them we are putting in place policies, procedures and guidelines to assist leaders in recruiting, on boarding, inducting, managing and developing their staff. As we develop our employment policies and procedures, we ensure these are transparent, with clear opportunities for staff engagement and feedback. ■■

BUSINESS PROCESSES AND TECHNOLOGY

While we are a provider of payroll services, we are also very much in the technology business. Technology underpins many of our core business processes and is a fundamental enabler of the services we provide to schools

Shareholding Ministers have made it clear they expect EPL to give early attention to a roadmap to ensure our core ICT systems are stable, supportable and sustainable.

A key component of that roadmap will be to develop a way forward in relation to the technology deployed

in the business. It will understandably have a long term focus. Over the short to medium term, we will be investing in initiatives to further stabilise the current payroll process, rationalise and improve that process so all deadlines are met, contingency is improved and school staff are paid accurately on time. ■■

MANAGING RISK

EPL recognises that managing risk is an integral part of good governance and management. EPL identifies and manages all material risks, both financial and non financial across strategic, operational and project environments. EPL has developed an enterprise wide risk management framework based on good risk management practice ■■



APPENDIX ONE – CORPORATE INFORMATION

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.

Its shareholders are the Minister Responsible for Novopay and the Minister of Finance, who each hold 50% of the issued share capital.

The purpose of EPL is set out in its Constitution. That is to:

(a) provide a schools payroll service to the Ministry of Education that ensures school payroll information and entitlements are accurately recorded, school staff are paid correctly and on time, and payroll information is easily accessible to both schools and the Ministry;

(b) operate in such a way as to:

- (i) enable the Secretary of Education to meet the payroll related obligations under section 89 of the Education Act 1989;
- (ii) deliver the required payroll services to the required service standards as defined by the Ministry of Education;
- (iii) develop, maintain, and retain the required capability to operate the service;
- (iv) be responsible stewards of the systems, processes, data, information, technology, and controls involved in the secure provision of the schools payroll service;
- (v) comply with all relevant legislation regarding pay, calculations, information, and deductions;
- (vi) enable the Ministry of Education to meet its obligations to all third parties involved in the schools payroll, including those to Inland Revenue, ACC, and superannuation providers;
- (vii) be responsive to the needs of schools and school staff in the delivery of the required payroll and related services;

(viii) work effectively with the Ministry of Education and other related service providers to provide an efficient, integrated payroll service to schools;

(ix) prudently and proactively manage the cost of providing the schools payroll service to the Ministry of Education so as to maximise value to the Shareholders;

(x) seek efficiencies and improvements as to how the payroll services are delivered; and

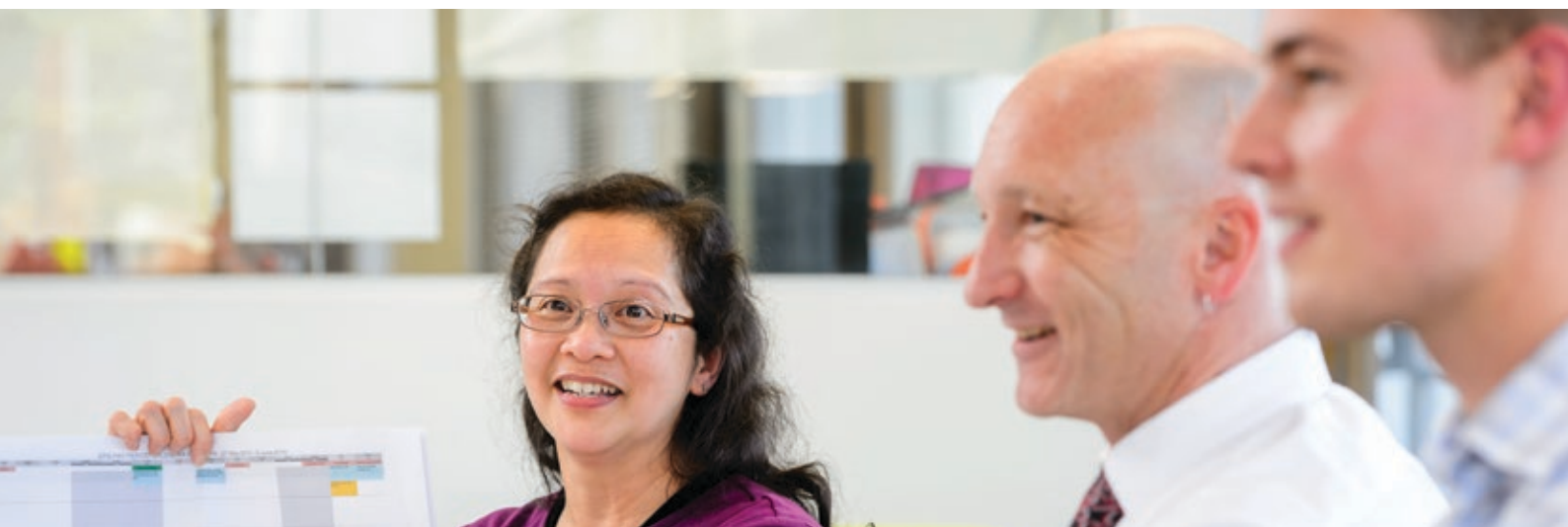
(xi) be responsive to new requirements and changes in the pay environment and support the implementation of government policy affecting the schools payroll service, each in an efficient, effective, and timely manner; and

(c) provide the Ministry of Education with such assistance as it may require at any time to transition the schools payroll service to another provider.

The Board of Directors is committed to a high standard of corporate governance in guiding and monitoring the operations of EPL. The Board is made up of three non-executive Directors appointed by Shareholding Ministers, following Cabinet approval. Our Board's role is to:

- determine our strategic vision
- formulate policy for the company
- ensure we develop strategies for identifying and managing risk
- ensure we comply with legislation and major contractual obligations
- oversee and monitor our performance
- report to our Shareholding Ministers on the Board's stewardship of the company

Responsibility for the operation and administration of EPL falls to the Chief Executive, who is accountable to the Board. ■■■



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