

EDUCATION PAYROLL
Rārangi Utu ā-Mātauranga



ANNUAL REPORT 2020



Published in SEPTEMBER 2020
Education Payroll Limited
Copyright

This Annual Report is submitted by the Board of Education Payroll Limited, which is accountable to two shareholding Ministers, the Ministers of Finance and Education, as set out in the Crown Entities Act 2004.



2020

EDUCATION PAYROLL LIMITED

ANNUAL REPORT

CONTENTS

BOARD CHAIR'S FOREWORD	1
THE SCHOOLS' PAYROLL	2
TEACHERS' PAY IS RELIABLE AND ACCURATE	3
STATEMENT OF PERFORMANCE	4
OUR ACHIEVEMENTS	9
Delivering the schools' payroll	9
A dedicated team	10
EdPay in all schools	10
Education Payroll Development Programme	11
IIANZ award	11
Agile expertise	11
Capacity and flexibility	11
CUSTOMER SATISFACTION RESULTS	13
TECHNOLOGICAL SUSTAINABILITY	14
OUR PEOPLE	15
STATEMENT OF CORPORATE GOVERNANCE	17
STATEMENT OF RESPONSIBILITY	19
INDEPENDENT AUDITOR'S REPORT	20
FINANCIAL STATEMENTS	23
NOTES TO THE FINANCIAL STATEMENTS	27

BOARD CHAIR'S FOREWORD

We are pleased to present Education Payroll's performance, achievements and financial statements for the year ending 30 June 2020.

Although the year has brought unprecedented challenges for New Zealand and the world, Education Payroll has successfully navigated these and has significant accomplishments to report.

By the end of 2019, all schools had been given access to EdPay, the new school's payroll user interface, which has been built in-house to reflect schools' needs. EdPay has been well received and new features continue to be added. The first of the old NOVO forms has now been retired, a step on the pathway that will allow the future decommissioning of Novopay.

The year also brought more changes to the schools' payroll service than has been previously seen with collective agreement and corresponding individual agreement changes for teachers, principals and support staff. Rather than simple increase calculations, the changes were structural and included the merging of existing grade steps, introducing myriad complexities to the calculations. The schools' payroll is unique in its complexity and the team has worked hard to accurately deliver the intended outcomes of bargaining to school employees.

It was a proud moment toward the end of the second quarter when Education Payroll won the 2019 Institute of Internal Auditors New Zealand award for Team Excellence in Internal Auditing, and indicative of the emphasis the company places on surfacing and addressing risk across the business.

We were pleased this year to welcome Colin MacDonald QSO to the Board of Directors. Colin has held multiple executive roles in both the public and private sectors and his experience of large information technology initiatives has been valuable.

The COVID-19 pandemic, which saw New Zealand enter lockdown in the final quarter of the year, was an opportunity to flex the modern workplace planning and preparation that the company had already invested in. Within one day of lockdown, the entire company was working online with full access to all data. Within a few days the team had run the schools' payroll remotely, processed detailed back pay for five collective agreements and shipped some new features into our bespoke payroll service EdPay. Also in lockdown, the team completed a full disaster recovery test including running the pay from an alternate data centre, and successfully switching it back again. This outstanding effort by our staff gave the Board confidence that if we are faced with a similar situation in the future, the company is able to quickly respond.

As we look forward to the year ahead, it remains a time of flux for New Zealand, however we are confident that the company will continue to deliver for schools and the wider sector. We thank Chief Executive Arlene White and her team for their continuing hard work and dedication. 🇳🇿

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



Sandi Beatie QSO
Board Chair
22 September 2020



Cathy Magiannis
Chair of Audit and Risk Committee
22 September 2020

THE SCHOOLS' PAYROLL

Education Payroll delivers the core fortnightly pay accurately and on time to New Zealand state and state-integrated schools including:



Assessment of teachers' qualifications and experience to set correct salaries



Processing and administration of ACC claims



One-on-one phone advice and guidance to school administrators



Management of overpayment debt



Administration of third party payments, such as ACC, KiwiSaver and student loans



One of the largest payrolls in Australasia

2500 schools and 6700 school payroll administrators

94,000 teachers and support staff

\$214 million per pay period

\$5.6 billion per annum

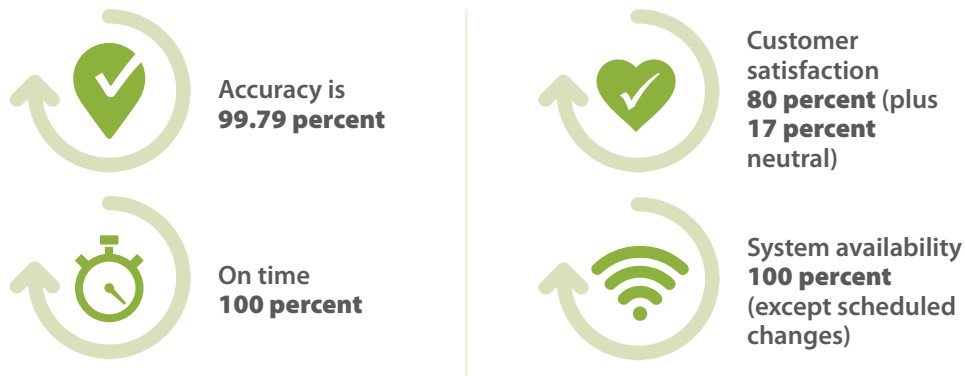
15 collective agreements and corresponding individual employment agreements

Over 1600 available allowances that can be applied to an individual's pay.



TEACHERS' PAY IS RELIABLE AND ACCURATE

The schools' payroll totals \$5.6 billion annually and serves 94,000 teachers, principals and support staff.



Education Payroll makes a total of **2.5 million payments** a year to the sector's **94,000 employees**. The number of jobs per pay period is growing fast – by **10 percent** since 2016 (employees may hold multiple jobs).

Average jobs per pay period



STATEMENT OF PERFORMANCE

For the 2019/20 financial year, Education Payroll's performance was guided by the 2019/20 Statement of Performance Expectations and the 2018–22 Statement of Intent.

Education Payroll's output is the successful delivery of the schools' payroll. In addition to this core role, within the provision of the service delivery to schools, we also manage debt related to payroll overpayments, and assess teachers' qualifications and experience to determine correct salaries. We process and administer ACC claims on behalf of schools.

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

Year ended 30 June	Actual \$000 2020	Budget \$000 2020	Actual \$000 2019
Total revenue	29,640	27,513	28,578
Total expenditure	27,984	26,413	28,377
Surplus	1,656	1,100	201



We measure our success with the following key performance indicators:

CORE PAYROLL SERVICE

Services that relate to the accurate provision of payments and entitlements to school employees. On average, we receive 13,000 payroll instructions from schools every fortnight.

PERFORMANCE MEASURE	DESCRIPTION	2019/20 Actual	2019/20 Standard	2018/19 Actual
ACCURACY				
Payroll payments to eligible teachers and school support staff are accurately calculated	Percentage of employees paid excluding requests to correct payments to employees and pay-impacting tickets not processed in the current fortnight	99.79%	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	80.7%	80%	80.9%
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	100%	99.5%	100%
QUALITY				
Customer satisfaction	Percentage of survey respondents satisfied with the overall quality of the service delivery and the support they receive from Education Payroll	80%	75%	76%

DEBT MANAGEMENT

Notification, recovery and administration of payroll-related overpayments.

PERFORMANCE MEASURE	DESCRIPTION	2019/20 Actual	2019/20 Standard	2018/19 Actual
ACCURACY				
New overpayments created	Percentage reduction in new overpayments ¹ created compared with the previous year	15.27%	15%	31.2%
TIMELINESS				
Debt notification made on time	Debtors will receive their first notification of debt within 15 working days of the debt being discovered ²	99.8%	99.5%	99.4%

SALARY ASSESSMENT

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

We received approximately 5,404 assessments last financial year.

PERFORMANCE MEASURE	DESCRIPTION	2019/20 Actual	2019/20 Standard	2018/19 Actual
ACCURACY				
Notification of errors related to salary assessment determinations	Percentage of transactions received and completed that did not result in notification of errors ³ or an overpayment related to incorrect salary assessment	100%	99.5%	99.9%
TIMELINESS				
Salary assessments processed on time	Accurate assessments will be processed within 15 working days from date of receipt ⁴	100%	100%	100%

- 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.
- Discovery is either the date of notification from the school/Ministry of Education/third party, or the date the overpayment is discovered by Education Payroll.
- The reported performance does not capture errors notified by schools, employees or the Ministry of Education.
- Date of receipt is when the application is complete with all required information for Education Payroll to make an assessment.

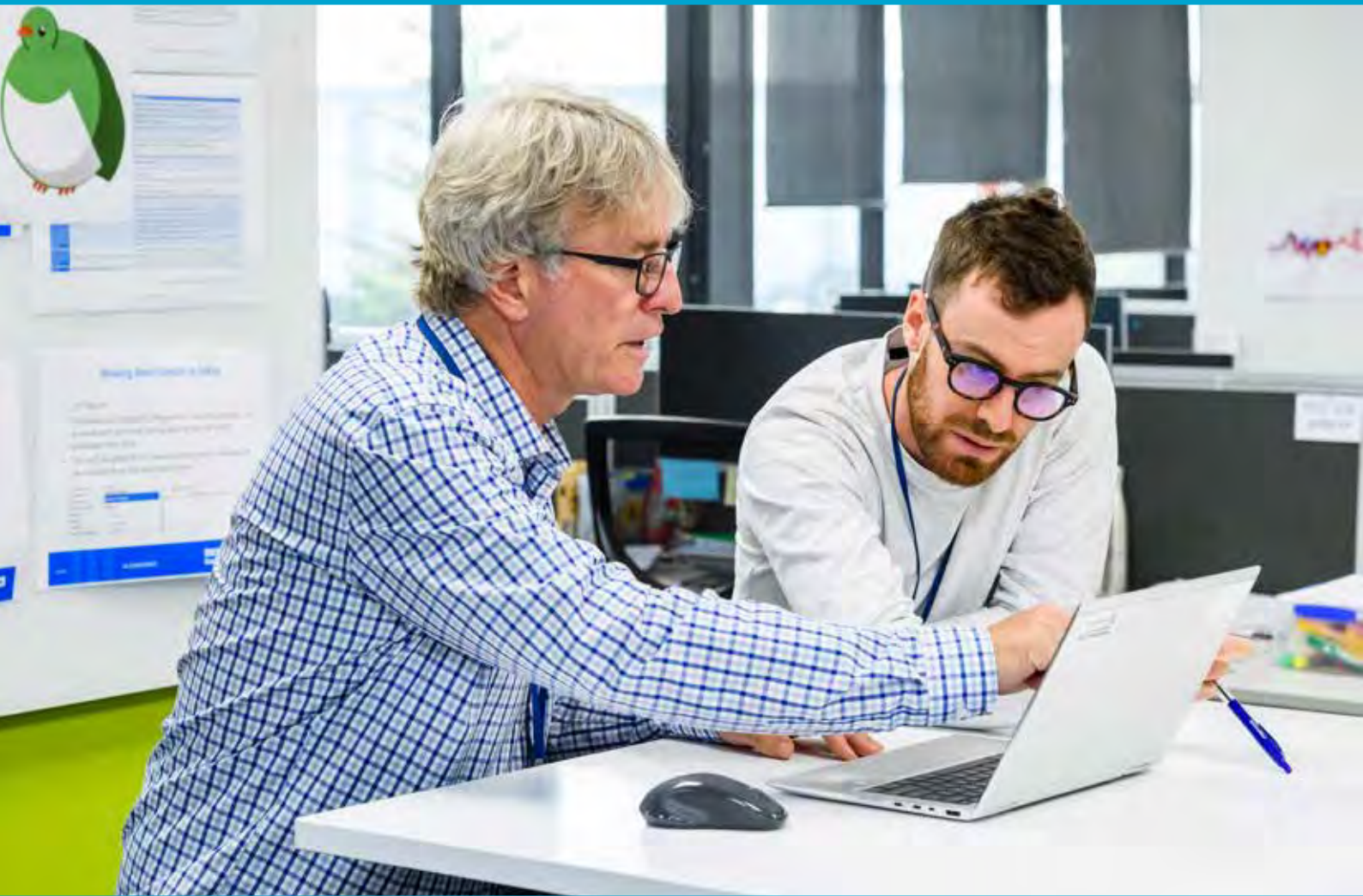
ACC ADMINISTRATION

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

We processed approximately 1,666 ACC claims last financial year.

PERFORMANCE MEASURE	DESCRIPTION	2019/20 Actual	2019/20 Standard	2018/19 Actual
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	100%	99.5%	100%





OUR ACHIEVEMENTS

This year Education Payroll reached its fifth birthday, and staff marked the day by coming together and sharing memories that revealed just how far we have come in that time. From a company formed out of the ashes of Novopay in a climate of dissatisfaction and distrust, we now enjoy high customer satisfaction.⁵ We have in just half a decade turned a well-documented technological failure, into an accurate, timely payroll service co-designed with schools, for schools.

DELIVERING THE SCHOOLS' PAYROLL

In 2019/20 Education Payroll once again successfully delivered the schools' payroll on time every fortnight, and to an accuracy of 99.79 percent. The fortnightly pay cycle is the heart-beat of our company and the several days leading in

to final cut-off are a flurry of activity for both our payroll advisers who provide advice and support to their dedicated groups of schools, and to school administrators. The rest of the business also adheres to this rhythm, ensuring that schools are never asked to do anything extra during these busy parts of the fortnight.



⁵ 80 percent satisfied and 17 percent neutral.

A DEDICATED TEAM

Our school account team of 77 payroll advisers deserve recognition for their stand-out efforts for schools this year. The team answer any payroll-related queries from school administrators, and each has a thorough knowledge of the complex schools' payroll which covers 15 collective agreements, corresponding individual employment agreements and thousands of potential allowances. It has many unique requirements, including that pay calculations are made 365 days a year, rather than weekly. Leave, holiday pay, sick leave and allowances all require ongoing recalculation to avoid under and overpayments. Entitlements also change frequently as collective agreements are renegotiated, often involving the collapsing and expanding of pay grade steps rather than one-to-one matching. Employees frequently hold multiple jobs, each with differing rates and requirements, and there are multiple funding sources that must be correctly allocated.

Despite these challenges, our payroll advisers are knowledgeable, friendly and dedicated to 'their' schools. The annual influx of Christmas cards and best wishes they receive are testament to these firm relationships between our team and schools. Most notably, when the team transitioned during the COVID-19 lockdown levels to working from home they were determined that the phone lines should stay open as much as possible to support schools, and many juggled partners, flatmates and family while adopting new protocols to ensure school privacy and security was maintained throughout.

EDPAY IN ALL SCHOOLS

Our custom-built online payroll service EdPay was released to all schools on schedule toward the end of 2019. New features in EdPay are added iteratively after a co-design process in

which schools test our prototypes and give feedback, and then our technology build teams make adjustments to fit schools' needs. The lessons of the past colour everything we do, and reverberating around the company is always the question 'is this the best thing for schools'?

Schools have had dual access to the forms-based Novopay and the fully online EdPay since it was launched, but EdPay is the hands-down winner. In 95 percent of cases schools choose to use EdPay for new hires and in 89 percent of cases for closing an employee's jobs. A new raft of EdPay functionalities will be tested early in the second half of 2020 that will make administering the pay much easier for schools. This will include straight-through-processing, meaning certain instructions from schools will be automated and don't need to be handled by our staff. This feature puts us on the pathway to delivering financial return on the government's investment in EdPay.

LOVE EdPay – can't wait to be able to do more and more through EdPay.

Ellerslie School

Kia ora EdPay – first-time use today to terminate an employee. Wow is all I can say. It was so easy. I hope all changes are this easy and good riddance to the forms!

Long Beach School

Just wanted to feedback that it is terrific that we can just make changes to employees' details without having to do a form!! So quick and so easy. Congratulations and well done.

Papatoetoe South School

Another sign that schools have confidence in the way EdPay is being built came when we began the process of retiring certain Novopay forms. Schools were comfortable with moving entirely to EdPay for these features.

EDUCATION PAYROLL DEVELOPMENT PROGRAMME

In 2016 the Schools' Payroll Detailed Business Case established a work programme to deliver 21 work packages. These included building EdPay, but also reached much wider into the stabilisation of the schools' payroll technology platforms, cybersecurity, business continuity planning, disaster recovery, and more. Known collectively as the Education Payroll Development Programme (EPDP), this work programme transitioned into business as usual on 30 June 2020. Treasury has also carried out its final gateway review of the programme and has concluded that the EPDP should be commended for effectively delivering capability to the education sector, resulting in further improvements to timeliness and accuracy, reputation, reduced school effort and improved payroll information and data. Treasury said particular aspects of the EPDP could be helpful to share with other government agencies as examples of good practice, such as the customer-centric approach taken to roll out EdPay to schools, and Education Payroll's risk and assurance practices.

AGILE EXPERTISE

Education Payroll has embedded the Scaled Agile Framework across the company, involving all staff in this iterative, test and learn methodology in which large pieces of work are broken down into achievable chunks that are rapidly built, tested, and modified. Agile has engendered a 'get it done' company culture and the National Business Review this year singled Education Payroll out as a company successfully using Agile to deliver.

CAPACITY AND FLEXIBILITY

In 2019/20 Education Payroll has delivered 21 material changes to the schools' payroll service requiring extensive custom coding and testing. New collective agreements and corresponding individual employment agreements were settled throughout the year for teachers, principals and support staff, each requiring complex back pay and / or one-off payments. These included complex expanding and collapsing of pay grades and steps, rather than simple increments. Our small team of payroll service operations staff, developers and testers have worked hard this year to successfully deliver pay adjustments to employees as quickly as possible following these settlements. 🇳🇿

IIANZ AWARD

In November 2019, Education Payroll received the prestigious Institute of Internal Auditors of New Zealand award for Team Excellence. The team won the award for its deep integration of internal auditing into all aspects of Education Payroll. Management of risk and assurance is fully embedded into all significant work within the company, ensuring risk mitigation is top of mind as we build EdPay and deliver the ongoing fortnightly payroll to schools.

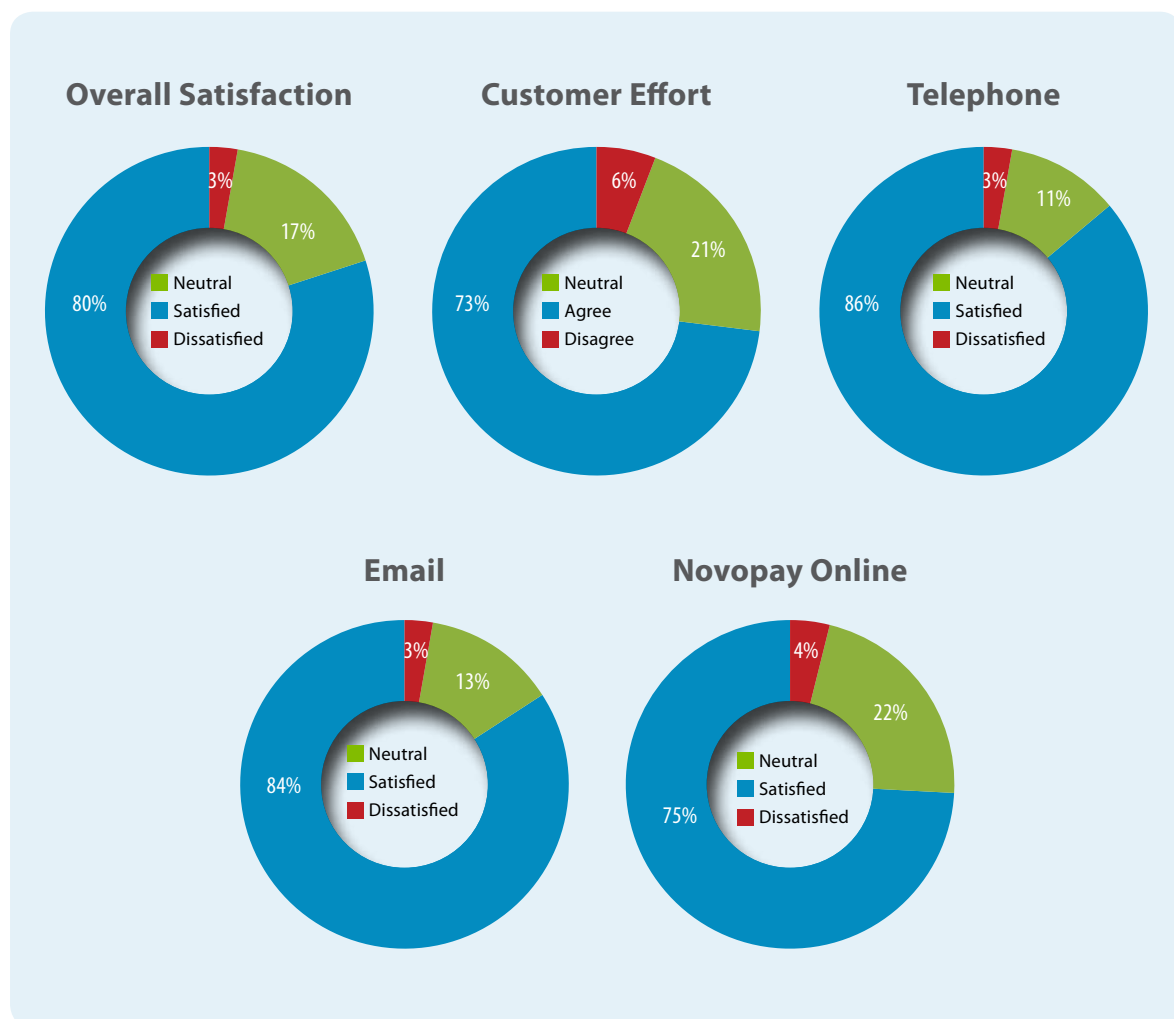


PHOTO: MALCOLM BONAR



CUSTOMER SATISFACTION RESULTS

An independent online customer satisfaction survey is sent each quarter to school pay administrators, Principals and others who use our service. In 2019/20 these results showed steady improvement with overall satisfaction reaching a high of 86% in the last quarter of the year and telephone satisfaction reached 90% for the quarter. The graphic below shows the averages for the year.



TECHNOLOGICAL SUSTAINABILITY

The core payroll system has continued to be stable and available during 2019/20.

Work has been completed to assess aging parts of the technology and to develop possible pathways for the future. This work will feed into future planning together with the Ministry of Education and Treasury during 2020/21. The technologies continue to be successfully and safely managed by our in-house team who hold deep knowledge of these products.

MODERN WORKPLACE

When New Zealand moved suddenly to COVID-19 alert levels 3 and 4 in April 2020, Education Payroll did not miss a beat. We had all staff working from home and collaborating via our modern workplace technology within a day, including an all-staff broadcast from the Chief Executive that was attended online by the whole company. The pay was delivered a few days later, including back pay for five collective agreements, and additional emergency COVID payments for time-sheeted school staff. We even remotely shipped some new features into EdPay during lockdown. All of this was made possible by our investments in technology, hardware, security and software products.

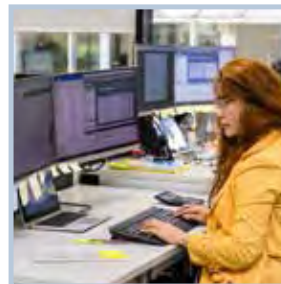
CYBERSECURITY

Cybersecurity attacks are common and ever changing. Education Payroll has installed a range of new security systems within our technology environment, including a full security operations centre. We have established a full-service cybersecurity partner and set a new cybersecurity performance measure for the 2020/21 year.

Like most government organisations, we face increasing attacks on our systems, originating from a wide range of countries. The focus for 2020 is to continue implementing cybersecurity improvements for all systems, hardware and networks throughout our technology IT architecture. 🇳🇿

DISASTER RECOVERY

We delivered another success during the April 2020 COVID-19 lockdown, thanks to our investment in disaster recovery. We completed a full disaster recovery site switch (all done remotely by staff working from home), ran a successful pay cycle from the alternate site to prove it worked, and then smoothly transitioned back to our main site.



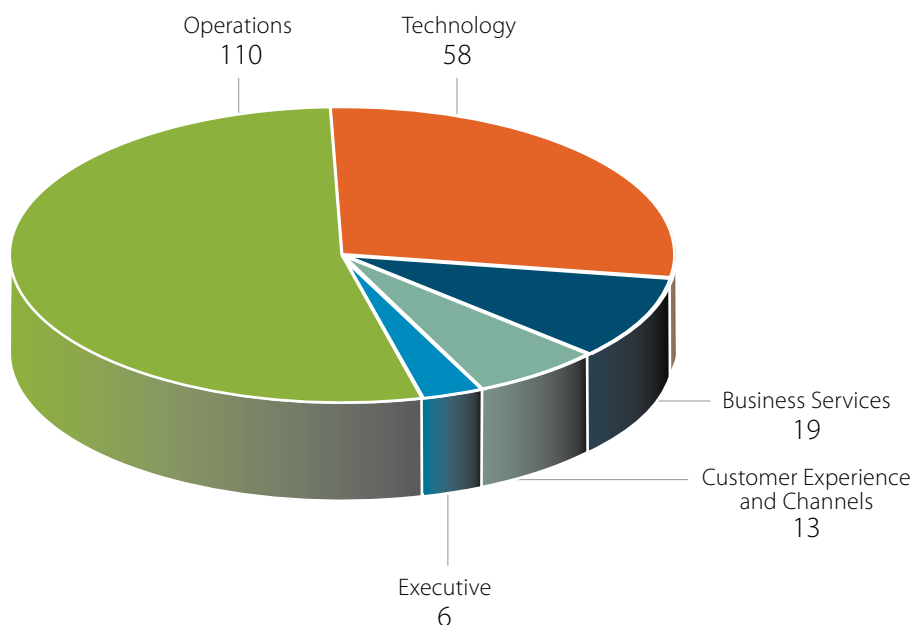
OUR PEOPLE

As our experience with the Agile methodology has deepened, Education Payroll staff have become increasingly integrated and comfortable working across teams. Technologists, operations school advisers, and service design specialists work together, and cross-company meetings happen daily whether online, in person, or both. Staff from all specialities each contribute their perspectives in order to deliver the best outcome for schools.

There is a welcoming atmosphere at Education Payroll. This good-natured spirit has been particularly evident during the COVID-19 experience, in which staff joined together to create an online social

distancing club and an online wellness information corner, and made hundreds of check-in calls to each other just to ensure colleagues were feeling supported and coping with uncertainty.

WHERE WE WORK



CAREER DEVELOPMENT

Toward the end of 2019 the Operations team appointed a dedicated trainer to design and deliver a training and development framework, including progression pathways, primarily focused on our operations teams who provide one-on-one advice to schools. This training stemmed from staff requests for more investment in their training during our staff engagement surveys.

Three cohorts of leadership development workshops have been established and will continue to run until the end of 2020. These are a Leadership Advantage workshop for tier 3 managers, a follow up Leadership Essentials workshop and a separate development opportunity for Emerging Leaders. The attendees are also followed up with individualised training plans. A company-wide policy encourages 'go-sees' whereby staff spend time shadowing other teams across the business and developing an appreciation for each other's skills and challenges.

HEALTH SAFETY AND WELLNESS

Education Payroll has a strongly active Health, Safety and Wellness committee with representation from throughout the organisation. As well as functional roles such as First Aiders, Workstation Assessors and Floor Wardens, the group delivers a wide range of emotional and mental health support initiatives.

Four new Wellness Officers offer weekly drop-in 'wellness windows' to staff and are also available at any other time to listen to staff and advise on

support options available as well as employment assistance programme services. Mental health awareness week was celebrated with several company-wide 'funtivities' and the promotion of wellness activities available to all.

AN ENGAGED TEAM

Education Payroll continues to test staff engagement with a full survey during the year that is now set to be repeated every six months. Pulse surveys are also used when specific issues arise, such as during the events surrounding COVID-19. In June 2020, 90 percent of staff who responded (77 percent) said they understand how their work contributes to the success of the organisation, and 79 percent said they know what is expected of them and what they need to do to succeed.

DIVERSITY AND INCLUSION

We proudly achieved membership of Diversity Works in January 2019, and have since rolled out company-wide training in unconscious bias and are moving to blind hiring practices. From 2021, Education Payroll will develop a system to record diversity and inclusion measures such as age, gender identity, ethnicity, sexual orientation, disability type and assistance provided, language and numbers of dependents. In the meantime, the team celebrates the many cultures our staff represent with international food tastings, holiday celebrations and other traditions. At last count we had welcomed staff from 17 countries to the team. 🇧🇪



STATEMENT OF CORPORATE GOVERNANCE

ORGANISATIONAL FORM

Education Payroll Limited (EPL) 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.

EPL'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

EPL 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 EPL 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, Statement of Performance Expectations and an Annual Report 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

EPL is required to operate within the functions, powers and constraints outlined above. Within this framework, the company has considerable discretion as to 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.

SANDI BEATIE QSO (CHAIR)

Sandi chairs the board, and holds several other governance roles, including membership of the risk and assurance governance committees of the Inland Revenue, NZ Police and Department of Prime Minister and Cabinet. She is also an independent member of the Te Ara Manaaki programme board for the Department of Internal Affairs.

Sandi has previously chaired the Archives Council, has held membership of a Ministerial Advisory Committee on Public Broadcasting, and has been a Director of the Independent Quality Assurance New Zealand Ltd board.

Sandi is a former Deputy State Services Commissioner and has also previously held a range of senior roles in the public and private sectors.

MARCEL VAN DEN ASSUM

Marcel holds several advisory roles in innovation and technology-driven transformation and is also currently chair of Merlot.Aero Ltd, Flick Electric Ltd, Sprout Agritech Ltd, and Wipster Ltd, and is a Director of CropX.

Prior to his governance career, Marcel was CIO of New Zealand's largest company Fonterra for five years, and before that was Managing Principal of Unisys New Zealand holding leadership roles in various global functions. He has worked across many industry sectors and government entities, and in most geographies.

CATHY MAGIANNIS


Cathy is currently Deputy Vice Chancellor, Finance and Technology at Massey University. As former 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. Cathy was then made Chief Executive of Education Payroll where she oversaw the initial stages of our intensive work programme to improve 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. Before joining the education sector, Cathy was Chief Executive of the Gareth Morgan Investments Group. She has also held senior management roles at Inland Revenue including programme director of KiwiSaver, where she led the implementation of the initiative across government.

COLIN MACDONALD QSO

Colin has more than 35 years' experience in both the private and public sectors. He has held executive roles in ANZ Banking Group and Inland Revenue, and has been the Chief Executive of two government departments.

With a professional background in Information Technology, Colin has a deep understanding of the context of major technology initiatives in the state sector, and the ways in which governance can maximise success.

Colin has a Bachelor of Science in Computer Science from Glasgow University and is a Chartered Engineer. He is also a member of the Institute of Directors. In the 2019 New Year Honours list, he was appointed as a Companion of the Queen's Service Order for services to the state. 



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 30 June 2020.

Signed on behalf of the Board.

A handwritten signature in dark ink, appearing to read 'Beatie', is positioned above the printed name and title of the signatory.

Sandi Beatie QSO
Board Chair

22 September 2020



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 2020

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 28, that comprise the statement of financial position as at 30 June 2020, 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 Company on pages 23 to 28:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; 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; and
- the performance information on pages 4 to 7:
 - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2020, including:
 - for each 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 22 September 2020. 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 for our 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.

Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Company as set out in note 18 to the financial statements.

Responsibilities of the Board of 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 director's 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 Company's 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 19, 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: International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) 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
On behalf of the Auditor-General
Wellington, New Zealand.

FINANCIAL STATEMENTS

The financial statement were approved by the Board and authorised for issue on 22 September 2020.

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2020

Year ended 30 June	Notes	Actual \$000 2020	Budget \$000 2020	Actual \$000 2019
Revenue from exchange transactions				
Sales of services to government		29,631	27,513	28,578
Sale of assets		9	-	-
Total operating revenue		29,640	27,513	28,578
Expenses				
Personnel expenses	12	11,406	10,453	11,925
Third party support		4,043	2,467	4,486
Corporate expenses	6	560	454	526
Auditor's remuneration		66	48	67
Directors' fees	11	137	140	139
Travel & entertainment		30	49	54
Accommodation & facilities		970	962	1,061
ICT costs		5,428	6,184	5,075
Depreciation, amortisation & provision for impairment		5,082	5,234	3,729
Total operating expenses		27,722	25,991	27,062
Non-operating items				
Loss on asset disposal		112	-	1,418
Interest received		(24)	(30)	(150)
Interest expense		174	452	47
Total non-operating items		262	422	1,315
Total income (deficit) for the period		1,656	1,100	201
Total comprehensive income		1,656	1,100	201

The accompanying notes should be read 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 2020

As at 30 June	Notes	Actual \$000 2020	Budget \$000 2020	Actual \$000 2019
Current assets				
Cash and cash equivalents		4,455	2,499	2,740
Receivables from exchange transactions		1,225	255	102
Prepayments		2,936	2,008	2,475
Total current assets		8,616	4,762	5,317
Non-current assets				
Property, plant and equipment	2	1,952	6,556	1,597
Intangible assets	3	21,856	30,854	12,921
Work in progress		8,436	552	13,287
Total non-current assets		32,244	37,962	27,805
Total assets		40,860	42,724	33,122
Represented by				
Current liabilities				
Accruals and payables	4	2,168	2,324	2,946
Employee entitlements		894	500	659
Income in advance		400	-	-
Total current liabilities		3,462	2,824	3,605
Non-current liabilities				
Borrowings	5	10,225	13,000	4,000
Total non-current liabilities		10,255	13,000	4,000
Total liabilities		13,687	15,824	7,605
Net assets		27,173	26,900	25,517
Shareholders' funds				
Capital contributions	15	25,520	25,520	25,520
Retained earnings		1,653	1,380	(3)
Total shareholders' funds		27,173	26,900	25,517

The accompanying notes should be read 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 2020

	Notes	Actual \$000 2020	Budget \$000 2020	Actual \$000 2019
Opening balance as at 1 July		25,517	25,800	25,316
Movements:				
Total comprehensive income for the year		1,656	1,100	201
Balance as at 30 June		27,173	26,900	25,517

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

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

Year ended 30 June	Notes	Actual \$000 2020	Budget \$000 2020	Actual \$000 2019
Cashflows from operating activities				
Receipts from sales to the Ministry of Education		28,336	27,513	28,336
Receipts from Interest		24	30	150
Receipts from other income		580	-	191
Cash inflows from operating activities		28,940	27,543	28,677
Payments to suppliers		12,871	11,241	12,240
Payments to employees		10,770	10,453	11,439
Cash outflows from operating activities		23,641	21,694	23,679
Net cash inflows from operating activities	8	5,299	5,849	4,998
Cashflows from investing activities				
Payments:				
Investment in tangible and intangible assets		9,520	13,082	9,688
Cash outflows from investing activities		9,520	13,082	9,688
Net cash outflows from investing activities		9,520	13,082	9,688
Cashflows from financing activities				
Receipts:				
Proceeds from borrowings		6,255	7,000	4,000
Cash inflows from financing activities		6,225	7,000	4,000
Payments:				
Interest on borrowings		289	452	47
Cash outflows from financing activities		289	452	47
Net cash inflows from financing activities		5,936	6,548	3,953
Net increase/ (decrease) in cash and cash equivalents		1,715	(685)	(737)
Cash and cash equivalents at the beginning of the year		2,740	3,184	3,477
Cash and cash equivalents at the end of the year		4,455	2,499	2,740
Represented by:				
Cash at bank		4,455	2,499	2,740
		4,455	2,499	2,740

The accompanying notes should be read 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 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 2019 to 30 June 2020.

Education Payroll's primary objective is to deliver the school payroll service to the Ministry of Education and the sector accurately and on time. As such, Education Payroll does not operate to make a financial return and therefore is a Public Benefit Entity. In addition, Education Payroll 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

Education Payroll's 2019/20 budget was adopted by the Board on 17 April 2019 and published on 30 June 2019.

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 asset 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 change 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.

Property, plant and equipment

Property plant and equipment asset classes consist of office equipment, furniture and 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.

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 12 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
Other intangibles	1 to 9 years

Work in progress

Assets under construction are recognised at cost, less any impairment losses, within non-current assets and are not depreciated.

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.

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 a public purpose crown-controlled company in accordance with the Income Tax Act 2007 and consequently is exempt from the payment of 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 and 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 these intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are assessed annually and are considered impaired when contribution to the generation of future economic benefits is assessed as diminished.

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.

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 cost 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.

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of Education Payroll's financial statements and that are expected to have an impact on Education Payroll's financial position, performance and/or disclosures are discussed below.

PBE FRS 48-Service Performance Reporting

Our current compliance with performance reporting under the Crown Entities Act provides compliance with the standard. We will continue to assess our disclosure with the standard when it comes into force. 

1. SALES OF SERVICES TO GOVERNMENT

Rendering services – full cost recovery

Under the new Service Level Agreement dated December 2017, Education Payroll is 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 2020	\$000 Furniture & fittings	\$000 ICT equipment	\$000 Office equipment	\$000 Leasehold improvements	\$000 Total
Opening cost	458	1,571	15	380	2,424
Additions	7	1,079	2	-	1,088
Disposals	-	(192)	-	-	(192)
Closing cost	465	2,458	17	380	3,320
Less accumulated depreciation					
Opening accumulated depreciation	(120)	(607)	(5)	(95)	(827)
Depreciation for the year	(72)	(554)	(4)	(67)	(697)
Accumulated depreciation written off on disposal	-	156	-	-	156
Closing accumulated depreciation	(192)	(1,005)	(9)	(162)	(1,368)
Closing balance at 30 June 2020	273	1,453	8	218	1,952

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)
Closing balance at 30 June 2019	338	964	10	285	1,597

3. INTANGIBLE ASSETS

	\$000 Developed software	\$000 Software licences	\$000 Other intangibles	\$000 Total
Year ended 30 June 2020				
Opening cost	12,704	8,856	5,453	27,013
Additions	12,372	-	655	13,027
Disposals	-	-	288	288
Closing cost	25,076	8,856	5,820	39,752
Less accumulated amortisation				
Opening accumulated amortisation	(5,856)	(4,470)	(3,766)	(14,092)
Amortisation for the year	(2,344)	(555)	(1,117)	(4,016)
Accumulated amortisation written off on disposal	-	-	212	212
Closing accumulated amortisation	(8,200)	(5,026)	(4,670)	(17,896)
Closing balance at 30 June 2020	16,876	3,830	1,150	21,856

	\$000 Developed software	\$000 Software licences	\$000 Other intangibles	\$000 Total
Year ended 30 June 2019				
Opening cost	13,315	8,882	5,264	27,461
Additions	504	-	783	1,287
Disposals	(1,115)	(26)	(594)	(1,737)
Closing cost	12,704	8,856	5,453	27,013
Less accumulated amortisation				
Opening accumulated amortisation	(4,593)	(3,925)	(2,922)	(11,440)
Amortisation for the year	(1,492)	(562)	(1,084)	(3,138)
Accumulated amortisation written off on disposal	229	17	240	486
Closing accumulated amortisation	(5,856)	(4,470)	(3,766)	(14,092)
Closing balance at 30 June 2019	6,848	4,386	1,687	12,921

4. ACCRUALS AND PAYABLES

	\$000 2020	\$000 2019
Creditors	754	1,886
Accrued expenses	1,414	1,060
Total creditors and other payables	2,168	2,946

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

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 secured over all property of Education Payroll. 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, when all drawdowns must be repaid. Multiple drawdowns can be made against this facility. Each drawdown has a unique repayment date and a unique interest rate agreed at the date of drawdown. The interest rate is based on the aggregate of the NZ swap rate and the USD margin. 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.

As at 30 June	Interest rate	\$000 2020	\$000 2019
August 2018 drawdown	5.13%	2,000	2,000
December 2018 drawdown	4.94%	2,000	2,000
September 2019 drawdown	2.97%	2,000	-
December 2019 drawdown	3.79%	2,000	-
June 2020 drawdown	5.21%	2,225	-
Total crown loan		10,225	4,000
Represented by:			
Current		-	-
Non-current		10,225	4,000
Total borrowings		10,225	4,000
The amount of borrowing costs capitalised during the year		115	92

6. CORPORATE EXPENSES

	\$000 2020	\$000 2019
Corporate expenses		
MOE emergency payment expense	116	4
Fringe benefit tax	9	9
Insurance	87	78
Other corporate costs	114	136
Payslip printing and postage	195	242
Stationery, printing and photocopying	30	42
Other	9	15
	560	526

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 2020	\$000 2019
Loans and receivables:		
Cash and cash equivalents	4,455	2,740
Receivables from exchange transactions	1,225	102
	5,680	2,842
Financial liabilities at amortised costs:		
Accruals and other payables	2,168	2,946
Borrowing	10,225	4,000
	12,393	6,946

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

	\$000 2020	\$000 2019
Net income	1,656	201
Add non-cash items		
Depreciation and amortisation expense	4,712	3,730
Loss in disposal	112	1,418
Other non-cash items	371	237
Net movements in non-cash items	5,195	5,385
Add/(deduct) movements in statement of financial position Items		
Trade debtors	(741)	22
Accrued income	(383)	(73)
Prepayments	(460)	(1,415)
Trade and other payables	(1,130)	351
Accruals and provisions	353	358
Employment entitlements	235	122
Income in advance	400	-
Net movements in working capital items	(1,726)	(635)
Add/(deduct): items classified as investing activities		
Interest paid on borrowing	174	47
Net cash flow from operating activities	5,299	4,998

9. CAPITAL COMMITMENTS

Education Payroll has contracted commitments for the development of property, plant and equipment or intangible assets as at 30 June 2020 of \$517,458 (compared with \$69,075 in 2019).

10. OPERATING LEASES AS LESSEE

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

As at 30 June	\$000 2020	\$000 2019
Not later than one year	738	738
Later than one year and not later than five years	1,509	2,249
Later than five years	-	-
Total non-cancellable operating leases	2,247	2,987

Education Payroll moved to the current premises in July 2017. The head lease is for six-years. The lease for an additional half floor 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 that 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.

	\$000 2020	\$000 2019
Sandi Beatie (Chair)	56	28
Murray Jack (Chair)	-	55
Cathy Magiannis	28	28
Marcel van den Assum	28	28
Colin MacDonald	25	-
Total board member remuneration	139	139

During the period the board of Education Payroll was comprised of four directors; Sandi Beatie (Chair), Cathy Magiannis, Marcel van den Assum and Colin MacDonald.

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

Education Payroll has directors' liability and professional indemnity insurance cover in respect of the liability or costs of board members and employees.

Education Payroll maintains an interest register to identify and manage conflicts of interest.

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 2020	\$000 2019
Wages and salaries	10,100	10,790
Other personnel costs	1,306	1,135
Personnel expenses	11,406	11,925

The amounts above include the remuneration of key management personnel as defined below. The table below shows remuneration received by Education Payroll employees (KiwiSaver contributions exclusive) which is equal to or exceeds \$100,000 per annum during the year ended 30 June 2020.

\$ Remuneration band	2020 Number of Employees	2019 Number of Employees
390,000 to 399,999	-	1
380,000 to 389,999	1	-
320,000 to 329,999	-	1
270,000 to 279,999	-	1
260,000 to 269,999	1	1
220,000 to 229,999	2	2
200,000 to 209,999	1	-
160,000 to 169,999	2	3
150,000 to 159,999	1	1
140,000 to 149,999	4	1
130,000 to 139,999	2	3
120,000 to 129,999	2	2
100,000 to 109,999	8	2

During the year ended 30 June 2020, 0 employees received compensation (2019:2) and other benefits in relation to cessation totalling \$0 (2019: \$262,833).

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 (4) 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:

Key management personnel remuneration	2020 \$000	2019 \$000
Senior management	1,358	1,697
Board	137	139
Number of persons recognised as key management personnel	9	10

The Chief Executive of Education Payroll is employed on a fixed term contract. This contract was renewed in November 2019 for a 3-year term. During the year the Chief Executive received remuneration of \$398,746, including a period of voluntary 10% reduction in response to COVID-19 at the recommendation of the State Services Commissioner. This amount includes employer contributions to Kiwisaver at 3%. No incentive remuneration is included or payable in this amount. The Chief Executive participates in Education Payroll's group salary continuance and employee life insurance policies.

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. 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 Education Payroll may encounter difficulties in meeting financial liabilities as they fall due. Education Payroll monitors and manages this risk through fulfilment of its treasury duties. Management regularly reviews its banking arrangements to ensure the best returns are achieved while maintaining liquidity levels to service 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.

15. EQUITY AND CAPITAL MANAGEMENT

Education Payroll is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which imposes 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 school's payroll.

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

Shareholders' equity

Contributed Equity	2020		2019	
	Shares	\$000	Shares	\$000
Issued at no par value and not fully paid ordinary shares	100	-	100	-

One hundred 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.

16. EVENTS AFTER REPORTING DATE

No events have occurred subsequent to the balance date that would require recognition or disclosure in the financial statements (2019: none).

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 factors contributing to the increase in revenue of \$2.1m are:

- \$1.4m. Completion of unbudgeted work for the Ministry of Education outside the business as usual section of the MSA.
- \$0.4m. COVID-19 Response and Recovery Fund.

Operating expenditure is higher than anticipated by \$1.7M. This is due to offsetting spend:

- \$2.5m. Increased personnel and third party resources used in the delivery of unbudgeted work to the Ministry of Education, costs of delays due to COVID-19, and reduction in the full realisation of operational benefits from the Education Payroll Development programme due to modifications to the program timeline.
- \$0.8m. Savings in ICT operating costs to support a more efficient technology operation.

Surplus: As Education Payroll's sole source of income is fee revenue from the Ministry of Education, it is required to operate an annual surplus to enable it to generate free cash to repay the Crown loan by June 2024 and operate an annual capex program. The surplus in 2019/20 was higher than budgeted due to the receipt of additional revenue, which will be reserved to partially meet program funding in 2020/21.

Non-operating items relate to assets being replaced by Education Payroll Development Programme developments and Education Payroll's move to a modern working environment. This cost is offset by savings in interest charges due to lower rates established on the Crown drawdowns than anticipated.

Statement of Financial Position

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


Higher current assets is contributed to by:

- the timing of commitments on the Education Payroll Development Programme, reflected in the higher cash and cash equivalent balance.
- the delivery of additional Ministry of Education work reflected in the higher receivables from exchange transactions balance.
- the payment of annual commitments to be spread across the coming year, reflected in higher prepayments.

18. IMPACT OF COVID-19

As a Crown entity delivering the schools' payroll to the Ministry of Education, our income stream and asset values have not been disrupted or impacted by the COVID-19 pandemic.

We continued to progress the Education Payroll Development Programme, however our ability to consult with schools was impacted for a short period. We also saw disruption with some of our suppliers and this caused delays in the implementation of some new technology infrastructure. These factors resulted in a delay to the realisation of full benefits and the need to retain specialist skills for longer than anticipated.

Education Payroll has received compensation towards these additional costs through the COVID-19 Response and Recovery Fund (CRRF) Foundation Package issued by the Minister of Finance on 29 May 2020. 



Incorporated in 2014 under the Companies Act 1993, Education Payroll 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



2020