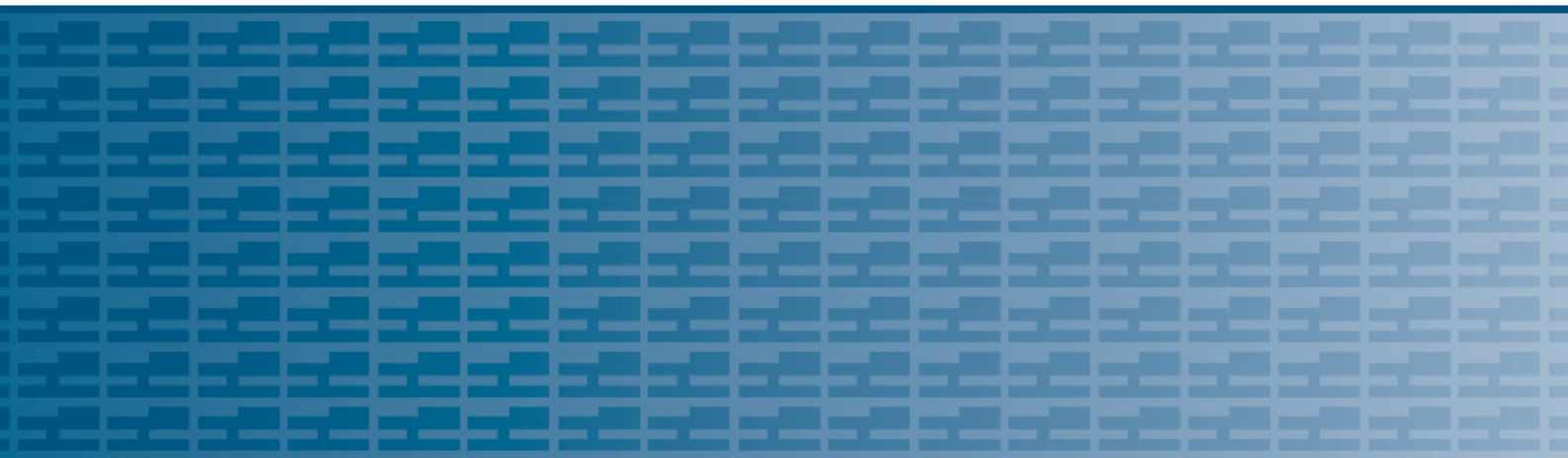




# STATEMENT OF **2021/22** PERFORMANCE EXPECTATIONS



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# STATEMENT OF PERFORMANCE EXPECTATIONS

This statement sets out the performance expectations of Education Payroll Limited (EPL) for the year ending 30 June 2022, and covers both service performance and the prospective financial statements.

EPL is a Crown-owned company, listed on Schedule 4A of the Public Finance Act 1989 and subject to the Companies Act 1993 requirements and Crown Entities Act 2004 provisions. EPL was founded in 2014 to provide payroll services to New Zealand's schools. Ownership is held equally between two shareholding ministers, the Minister of Finance and the Minister of Education, with governance by a Crown-appointed board of directors.

This document aligns with our *Statement of Intent 2021–25*, which gives a longer term view of our organisation, strategic goals, context, direction and aspirations.

Our *Annual Report 2022* will detail achievement against the performance expectations outlined in this document. 



## WHO WE ARE AND WHAT WE DO

EPL is a Crown company established in 2014 to deliver the pay to around 100,000 teachers and support staff in 2,500 schools every fortnight, under the instruction of the Ministry of Education. Our average fortnightly \$214 million pay run totals around \$5.6 billion each year, and is one of the largest in Australasia.

The schools' payroll is complex, covering 15 collective agreements, 16 individual employment agreements and multiple allowances. It has many unique requirements, including that pay calculations are made 365 days a year, rather than weekly or fortnightly (which is standard with most payrolls).

Leave, holiday pay, sick leave and allowances all require ongoing calculation to ensure correct payments. Entitlements also change frequently as collective agreements are renegotiated, often involving the collapsing and expanding of pay grade steps. Employees frequently hold multiple jobs, each with differing rates and requirements, and there are multiple funding sources that must be correctly allocated.

To help guide schools through these complexities, our specialist payroll advisors draw on an extensive knowledge base to provide end-to-end services to their designated schools. This service helps us to deliver the payroll accurately and on time.

Payroll advisors work with school payroll administrators and principals over the phone and by email to provide advice, and are valued and trusted by schools. They often provide suggestions back to EPL on behalf of schools, which we take on board. We operate a customer-centric service model and design our products and services with schools for schools.

### **Better every day**

We deliver the schools' payroll reliably, accurately and on time each pay period, with an organisation-wide focus on simplification and continuous improvement, working to reduce manual effort for schools and staff.

The complexity of the payroll system and number of school staff is constantly evolving and we must ensure we have the capacity to respond to these changes, alongside the continuing development of the payroll system. We are also looking to the future and for opportunities to improve our products and services.

### **EdPay – the future of schools' payroll**

Our flagship online service EdPay is now being used by all schools, with reduced effort and increased satisfaction for our customers. EdPay has been a step-change in the way schools' pay is processed, moving from the old, cumbersome forms-based Novopay to a faster and more accurate online system.

EdPay has resulted in efficiency gains for schools through fewer errors and rework, and a substantial increase in satisfaction with our service, which is measured through quarterly surveys. Schools tell us that they want to be able to do everything in EdPay – so they can do all of their changes online and in one place.

In 2020 we celebrated one year of EdPay in schools and retired the first of the old NOVO forms, which were lengthy and complicated. Since then we've been progressively retiring NOVO forms and adding new features to EdPay, and this year will be focusing on retiring the remaining NOVO forms and decommissioning Novopay Online.

Our specialised technology team manages the stability and security of the payroll service and are the architects and builders of EdPay. They work in an agile way to test, learn, develop and embed new functions and improvements to the system and platforms.

### **Ongoing investment**

The Education Payroll Development Programme, which was focused on building the new online schools' payroll system EdPay and other modernising work, transitioned to business as usual on 1 July 2020. Performance measures in this document will chart the improvements in services due to the development programme and ongoing continuous improvements in future years.

### Oracle upgrade and Ascender review

We must ensure that our core systems are stable, supportable, secure and sustainable for the long term. Upcoming major upgrades to the Oracle database in 2021/22 will help ensure components of the system are robust, supported and secure. We will also be reviewing the Ascender pay engine.

### Cyber security and business continuity planning

Cyber security and data breaches pose an increasing threat to maintaining a secure and stable platform. We will continue to focus and build on key capabilities to deliver cyber security, in line with recommendations from the National Cyber Security Centre and good practice. We will do this through continuing to implement cyber security improvements for all systems, hardware and networks to protect against the cyber attacks that are increasingly being experienced by public sector entities.

We have proven capability and capacity to deliver the payroll with staff working from home or anywhere with a broadband connection. We will continue to keep pace with technology and maintain and refresh our assets to ensure good business continuity planning and practice.

### Risk management and assurance

EPL identifies and manages risks across strategic, operational, financial, cyber security, privacy, and technology environments. Our Organisational Governance Board regularly reviews and evaluates current and emerging risks, while ensuring that the organisation is taking appropriate action to mitigate these. Risks are also reported to the Ministry of


Education through the Payroll Operations Board and Schools' Payroll Governance Board.

An enterprise-wide risk management framework is in place, based on Risk Management ISO 31000 standards. The Audit and Risk Committee, chaired by an EPL Board member, monitors key risks and follows up on audit issues.

EPL provides assurance through reporting on controls, running regular analytics and conducting reviews or audits when required. We provide shift-left risk and assurance assessments early in the design and build phases of new software development and attend and provide real-time advice at management and team meetings. This means we are able to evaluate emerging risks and work to eliminate or mitigate them.

### An engaged team

We see our people as our main asset, making a real difference. Our work environment is one where people can learn and grow, are engaged in their jobs, and add value to the organisation. Our staff are expert advisors – because of their ability to assimilate detailed knowledge, their relationship skills, and their drive and ability to solve problems for the customer.

We have flexible work practices, an emphasis on wellbeing and are committed to being a good employer – providing a modern environment where employees feel valued and are respected, where difference is celebrated and diversity is encouraged. We believe that this is an exciting time to work at EPL as we move with changes occurring in the education sector and wider environment. 



## SERVICE PERFORMANCE EXPECTATIONS

EPL has one reportable output – to successfully deliver the schools' payroll.

In addition to this, as part of our service delivery to schools, we also assess teachers' qualifications and experience to set correct salaries, manage overpayments, process and administer ACC claims, and administer third-party payments, such as KiwiSaver and student loans.

These performance measures and prospective financial statements relate to the delivery of the schools' payroll and these services.

	Budget \$000 2021/22	Budget \$000 2020/21	Forecast \$000 2020/21
<b>For the 12 months to 30 June</b>			
Revenue	38,339	27,779	32,961
Expenditure	29,479	26,688	28,348
<b>Surplus/(deficit)</b>	<b>8,860</b>	<b>1,091</b>	<b>4,613</b>



## CORE PAYROLL SERVICE

Our core services relate to the accurate provision of payments and entitlements to school employees. On average, we receive approximately 13,000 payroll instructions every fortnight.

PERFORMANCE MEASURE	DESCRIPTION	2019/20 actual	2020/21 estimated	2021/22 target
<b>ACCURACY</b>				
Payroll payments to eligible teachers and school support staff are accurately calculated	Employees paid, excluding requests to correct payments to employees, and pay impacting tickets not processed in the current fortnight	99.79%	99.88%	99.50%
Payroll instructions submitted 'right first time' by schools	Payroll instructions received from schools that can be processed first time without being returned for further information	80.70%	81.37%	80%
<b>TIMELINESS</b>				
Pay timeliness as indicated by the time employees are paid on the due date	Bank files delivered before 12pm before due pay day	100%	100%	100%
Payroll payments to eligible teachers and school support staff that are sent to financial institutions on time in order to be processed on or before advised pay dates	Employees paid, excluding the employees receiving a manual pay, in the fortnight following the advised pay date	100%	100%	99.50%
<b>QUALITY</b>				
Customer satisfaction	Survey respondents satisfied with the overall quality of the service delivery and support received from EPL	80%	80%	75%
<b>WEBSITE AVAILABILITY</b>				
Website availability	Availability to school payroll service users of the website for obtaining and submitting information (7am to 7pm, seven days a week)	99.96%	99.94%	>97.50%

These key performance targets are based on the Ministry of Education agreed KPI level (13/12/17).

## OVERPAYMENT MANAGEMENT

Notification, recovery and administration of payroll-related overpayments.

PERFORMANCE MEASURE	DESCRIPTION	2019/20 actual	2020/21 estimated	2021/22 target
<b>ACCURACY</b>				
New overpayments created	Reduction in new overpayments created compared with the previous year	15.3%	19.5%	15%
<b>TIMELINESS</b>				
Overpayment notification made on time	Employees receive their first letter notification of overpayment within 15 working days of the overpayment being discovered <sup>1</sup>	99.8%	99.9%	99.5%

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

## SALARY ASSESSMENT

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

We received approximately 5,880 requests for assessments last financial year.

PERFORMANCE MEASURE	DESCRIPTION	2019/20 actual	2020/21 estimated	2021/22 target
<b>ACCURACY</b>				
Notification of errors related to salary assessment determinations	Salary assessments are accurately received and processed/completed and do not result in overpayments	100%	99.9%	99.5%
<b>TIMELINESS</b>				
Salary assessments processed on time	Accurate assessments will be processed within 15 working days from date of receipt <sup>1</sup>	100%	100%	100%
1 A salary assessment application is classed as received once it has been confirmed as being complete and accurate.				

## 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 2,090 ACC claims last financial year.

PERFORMANCE MEASURE	DESCRIPTION	2019/20 actual	2020/21 estimated	2021/22 target
<b>ACCURACY</b>				
Notification of errors related to ACC claims	Transactions received and completed that did not result in notification of errors from schools, employees, the Ministry, ACC, or an overpayment related to the incorrect processing of an ACC claim	100%	99.9%	99.5%

## CYBER SECURITY

Cyber security is increasingly relevant to all public sector agencies. In addition to developing our cyber security capability with a full-service cyber security partner, EPL has set performance measures to reflect the importance of this area.

PERFORMANCE MEASURE	2021/22 target
Number of preventable cyber-security-critical incidents	0
All recommendations from the National Cyber Security Centre have been implemented	Yes

## RESPONSIVE SERVICE

Promptly delivering newly agreed entitlements for school employees.

PERFORMANCE MEASURE	2021/22 target
Implement collective agreements within three pay periods of receiving full business requirements from the Ministry of Education	100%



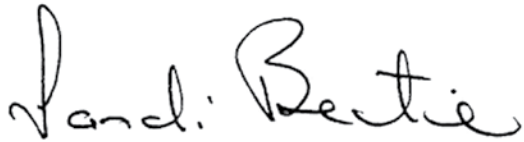
## PROSPECTIVE FINANCIAL STATEMENTS

Under the Crown Entities Act 2004, EPL is required to develop prospective financial statements and table the *Statement of Performance Expectations* in Parliament.

The following forecast financial statements are estimates, and are based on the best available information at the time of compilation. They contain inherent uncertainties, and must be viewed in the context of an unprecedented year dominated by the worldwide COVID-19 pandemic. Actual financial results achieved for the forecast period are likely to vary from information presented and variations may be material.

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

These prospective financial statements are issued as at 30 June 2021 and are based on information available at the time of compilation.



**Sandi Beatie**  
Chair  
Education Payroll Limited



**Colin MacDonald**  
Chair of Audit and Risk Committee  
Education Payroll Limited



## THE PROSPECTIVE FINANCIAL STATEMENTS ARE BASED ON THE FOLLOWING ASSUMPTIONS

### Revenue and expenditure

The 2021/22 budget assumes a larger surplus than achieved in 2020/21. This is almost exclusively due to the receipt of cash funding for the Oracle Upgrade Project, as cost reimbursement revenue. The project is itself a capital expenditure item. The technical mismatch in revenue and expenditure type leads to an inflated surplus.

Within this budget there are counterbalancing elements of:

- the \$10.1M cost of the Oracle Upgrade Project over two years from 2020/21
- increases in licensing, support, and other unavoidable technology costs
- realisation of processing efficiencies from the use of the EdPay self-service portal
- reductions in revenue, due to the expiry of one-off funding received for COVID-19 recovery, and specific one-off projects for the Ministry of Education.

Other assumptions are:

- additional revenue has been included beyond the payroll service fees received from the Ministry of Education for the completion of the Oracle Upgrade Project
- while we anticipate there will be change requests in 2021/22, no request related income has been included, due to uncertainty around the final shape of change requests in the pipeline
- overall staffing levels are expected to continue to remain stable during 2021/22. Operational efficiencies from implementation of straight-through processing are expected to be paused while the technology focus turns temporarily to the Oracle Upgrade Project
- the operations group is aiming to undertake all end-of-year/start-of-year work in 2021/22 within EdPay for the first time. Any post-EPDP completion work is forecast as part of the business-as-usual operating and capital expenditure


- no new costs associated with the COVID-19 pandemic have been included in this 2021/22 budget. During the initial COVID-19 lockdown period, EPL had a small number of one-off equipment costs that are not expected to recur. EPL is well set up to work as a remote workforce if required to, in order to maintain the payroll, and does not expect to incur further costs for remote work.

### Capital budgets

The 2021/22 capital budget includes \$0.150M for business-as-usual corporate capital, and \$5.8M for Oracle upgrade work, \$0.925M for technology infrastructure improvements, and \$1.92M for other development to EdPay. New Oracle licenses are being purchased as part of the upgrade project. This outlay is forecast to occur at the end of 2020/21 but will have ongoing operating cost implications for several years ahead.

EPL continues to focus on investing carefully to ensure that the taxpayers' assets are protected and fully developed. It is expected that due to ongoing development of EdPay, technology infrastructure, and the Oracle upgrade initial work, the limited funding available post-EPDP (Education Payroll Development Programme) will have to be carefully allocated to maximise value to the shareholders.

### Cash flow and funding

- Cash flow projections assume maintenance of a minimum \$2M cash reserve throughout the period.
- Repayment of loan drawdowns is profiled for 2021/22 and 2023/24. EPL expects that the loan will be finally discharged in the year to 30 June 2024.
- EPL faces a number of cost pressure challenges due to the complexity of the Oracle upgrade and the related Oracle licenses. It has financial levers to pull to ensure that cash balances remain positive while undertaking this key piece of development work. 

PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES  
FOR THE PERIOD ENDED 30 JUNE 2022

Period ended 30 June	Notes	Budget \$000 2021/22	Budget \$000 2020/21	Forecast \$000 2020/21
<b>Revenue from exchange transactions</b>				
Sales of services to government	4	38,339	27,779	32,961
<b>Total operating revenue</b>		<b>38,339</b>	<b>27,779</b>	<b>32,961</b>
<b>Expenses</b>				
Personnel expenses		12,242	10,221	10,326
Third-party support		1,358	2,122	3,775
Corporate expenses		610	478	561
Auditors' remuneration		64	51	64
Directors' fees		140	140	132
Travel & entertainment		37	42	45
Accommodation & facilities		825	1,011	968
ICT costs		7,412	6,045	6,639
Depreciation & amortisation	10, 13	6,342	6,143	5,419
<b>Total operating expenses</b>		<b>29,030</b>	<b>26,253</b>	<b>27,929</b>
<b>Finance income</b>				
Interest received		(3)	(15)	(8)
<b>Finance expenses</b>				
Interest expense		(452)	(450)	(427)
<b>Total finance income (costs)</b>		<b>(449)</b>	<b>(435)</b>	<b>(419)</b>
<b>Total surplus for the period</b>		<b>8,860</b>	<b>1,091</b>	<b>4,613</b>
<b>Total comprehensive income</b>		<b>8,860</b>	<b>1,091</b>	<b>4,613</b>

*These financial statements should be read with the accompanying notes.*

**Note:** the surplus planned for the 2021/22 year is tagged exclusively for application to the Oracle Upgrade Project and repaying the Crown loan.

## PROSPECTIVE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

As at 30 June	Notes	Budget \$000 2021/22	Budget \$000 2020/21	Forecast \$000 2020/21
<b>Current assets</b>				
Cash & cash equivalents	9	6,868	7,763	3,894
Receivables from exchange transactions		2	90	2
Prepayments		2,668	1,549	2,764
<b>Total current assets</b>		<b>9,538</b>	<b>9,402</b>	<b>6,660</b>
<b>Non-current assets</b>				
Property, plant & equipment	10	2,615	2,666	2,275
Intangible assets	13	31,873	24,576	26,195
Work in progress	11	9,002	7,144	12,445
<b>Total non-current assets</b>		<b>43,490</b>	<b>34,386</b>	<b>40,915</b>
<b>Total assets</b>		<b>53,028</b>	<b>43,788</b>	<b>47,575</b>
<b>Represented by:</b>				
<b>Current liabilities</b>				
Accruals & payables	16	2,658	2,450	1,765
Employee entitlements	18	500	500	800
Current portion of borrowings	17	–	4,000	4,000
<b>Total current liabilities</b>		<b>3,158</b>	<b>6,950</b>	<b>6,565</b>
<b>Non-current liabilities</b>				
Borrowings		9,225	9,000	9,225
<b>Total non-current liabilities</b>		<b>9,225</b>	<b>9,000</b>	<b>9,225</b>
<b>Net assets</b>		<b>40,645</b>	<b>27,838</b>	<b>31,785</b>
<b>Shareholders' funds</b>				
Capital contributions	19	25,520	25,520	25,520
Retained earnings		15,125	2,318	6,265
<b>Total shareholders' funds</b>		<b>40,645</b>	<b>27,838</b>	<b>31,785</b>

These financial statements should be read with the accompanying notes.

## PROSPECTIVE STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2022

Year ended 30 June	Notes	Budget \$000 2021/22	Budget \$000 2020/21	Forecast \$000 2020/21
<b>Cash flows from operating activities</b>				
Receipts from sales of services for government		38,339	27,779	32,961
Receipts from interest received		3	15	8
<b>Cash inflows from operating activities</b>		<b>38,342</b>	<b>27,794</b>	<b>32,969</b>
Payments to suppliers		(9,760)	(8,835)	(11,695)
Payments to employees		(12,242)	(10,221)	(10,326)
<b>Cash outflows from operating activities</b>		<b>(22,002)</b>	<b>(19,056)</b>	<b>(22,021)</b>
<b>Net cash inflows from operating activities</b>		<b>16,340</b>	<b>8,738</b>	<b>10,948</b>
<b>Cash flows from investing activities</b>				
<b>Payments:</b>				
Investment in tangible & intangible assets		(8,797)	(7,212)	(13,948)
<b>Net cash (outflows) from investing activities</b>		<b>(8,797)</b>	<b>(7,212)</b>	<b>(13,948)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
Proceeds from Crown loan drawdowns		–	3,000	3,000
<b>Cash inflows from financing activities</b>				
<b>Payments:</b>				
Repayment of Crown loan drawdowns		(4,000)	–	–
Interest on borrowings		(569)	(450)	(561)
<b>Cash outflows from financing activities</b>		<b>(4,569)</b>	<b>(450)</b>	<b>(561)</b>
<b>Net cash (outflows)/inflows from financing activities</b>		<b>(4,569)</b>	<b>2,550</b>	<b>2,439</b>
<b>Net increase (decrease) in cash &amp; cash equivalents</b>		<b>2,974</b>	<b>4,076</b>	<b>(561)</b>
Cash & cash equivalents at the beginning of the year	9	3,894	3,687	4,455
<b>Cash &amp; cash equivalents at the end of the year</b>		<b>6,868</b>	<b>7,763</b>	<b>3,894</b>
<b>Represented by:</b>				
Cash at bank		6,868	7,763	3,894
		<b>6,868</b>	<b>7,763</b>	<b>3,894</b>

*These financial statements should be read with the accompanying notes.*

## PROSPECTIVE STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2022

	Budget \$000 2021/22	Budget \$000 2020/21	Forecast \$000 2020/21
<b>Opening balance</b>	31,785	26,747	27,172
<b>Movements:</b>			
Capital contributions			
Total comprehensive income for the year	8,860	1,091	4,613
<b>Balance as at 30 June</b>	<b>40,645</b>	<b>27,838</b>	<b>31,785</b>

*These financial statements should be read with the accompanying notes.*

## EDUCATION PAYROLL CAPITAL EXPENDITURE FOR THE PERIOD ENDED 30 JUNE 2022

	Budget \$000 2021/22	Forecast \$000 2020/21
<b>Property, plant &amp; equipment</b>	925	964
<b>Intangible assets</b>	7,872	12,984
<b>Total</b>	<b>8,797</b>	<b>13,948</b>

*These financial statements should be read with the accompanying notes.*



# NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

Education Payroll Limited (EPL) is a limited liability company incorporated on 27 August 2014. It was formed following a decision to transfer ownership and management of the schools' payroll service from Talent2 to a new government-owned company.

The new company commenced operations on 17 October 2014 and resides in New Zealand under the Companies Act 1993. EPL is a Crown entity as defined by the Crown Entities Act 2004 and is listed in Schedule 4A of the Public Finance Act 1989.

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

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

## 2. STATEMENT OF COMPLIANCE

The prospective financial statements are for the year ended 30 June 2022. They have been prepared in accordance with the Financial Reporting Act 2013, which requires compliance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

They comply with New Zealand Financial Reporting Standard No. 42 – "Prospective Financial Statements".

The financial statements of the company comply with PBE standards and have been prepared in accordance with Tier 1 PBE standards.

## 3. PRESENTATION CURRENCY

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4. REVENUE FROM EXCHANGE TRANSACTIONS

Revenues from payroll services provided to the Ministry of Education on commercial terms are exchange transactions. Unbilled revenue at year end is recognised in the Prospective Statement of Financial Position as receivables from exchange transactions.

Revenue from the provision of payroll services is recognised when the following criteria are met:

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

### 5. FOREIGN CURRENCY TRANSACTION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in surplus or deficit.

### 6. LOANS AND RECEIVABLES

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

Accounts receivable are recognised at fair value. A provision for impairment of accounts receivable is made where there is objective evidence that EPL will not collect all amounts due according to the original terms of the receivable.

When this occurs, the receivable is recorded at amortised cost less provision for impairment. When the receivable is uncollectible, it is expensed in the Prospective Statement of Comprehensive Revenue and Expenses.

## 7. LEASES

### *Finance leases*

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

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

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

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

### *Operating lease*

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

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

## 8. FINANCIAL INSTRUMENTS PRESENTATION

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

EPL's financial liabilities include trade and other creditors and borrowings that pertain to EPL's loan facility provided by the Crown.

EPL de-recognises a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets, when the rights to receive cash flows from the asset have expired or are waived, or EPL has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received

cash flows in full without material delay to a third party, and either:

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

## 9. CASH AND CASH EQUIVALENTS

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

## 10. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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



Depreciation on property, plant and equipment (excluding work in progress) is calculated on a straight-line basis, from the time the asset is in the location and condition necessary for its intended use.

This basis allocates the cost or value of the asset, less its residual value, over its estimated useful life.

The depreciation method, estimated useful lives, and residual values of property, plant and equipment are reviewed annually to assess appropriateness.

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

- office equipment 2–6 years
- furniture & fittings 3–12 years
- ICT equipment 2–10 years
- leasehold improvements 3–6 years

## 11. WORK IN PROGRESS

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

## 12. GAINS AND DISPOSALS

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

## 13. INTANGIBLE ASSETS

Software is a finite-life intangible and is recorded at cost, less accumulated amortisation and impairment.

Amortisation is charged on a straight-line basis over the estimated useful life of the intangible asset.

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

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

Costs that are directly associated with the 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 6–10 years
- developed software 4–12 years
- purchased software 1–5 years
- other intangibles 3–9 years

## 14. GOOD AND SERVICES TAX

All items in the financial statements are stated exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the Prospective 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 Prospective Statement of Cash Flows.

Commitments and contingencies are disclosed as exclusive of GST.

## 15. INCOME TAX

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

## 16. ACCRUALS AND PAYABLES

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

## 17. BORROWINGS

Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs.

Interest due, but not yet paid on the borrowings, is subsequently accrued and added to accruals and payables.

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

The Crown loan was secured to enable the creation of assets during the delivery of the Education Payroll Development Programme (EPDP).

Net interest on the Crown loan is capitalised during the development of EPDP assets and is held in work in progress until the assets are capitalised. Interest is not capitalised on projects where they have been put on hold indefinitely. Interest is expensed once the assets are capitalised.

## 18. EMPLOYMENT ENTITLEMENTS

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

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

## 19. EQUITY

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

## 20. COST ALLOCATION

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

## 21. REPORTABLE OUTPUTS


In compliance with the Crown Entities Act (2004) S149E (1) (c) EPL confirms that it does not propose to supply any class of outputs in the financial year that is not a reportable class of outputs.

## 22. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

- funding for payroll services delivered by EPL is through a Master Service Agreement with the Ministry of Education
- the useful lives of intangible assets are based on a mix of the current term of the Ascender software license, the 10-year business and financial term of the Detailed Business Case (DBC), and the generally accepted useful lives of specific types of software
- continued roll-out and uptake of the EdPay system, retirement of the Novopay Online portal, and capture of the financial benefits outlined in the DBC. 

## OUR STRATEGIC FRAMEWORK 2021-2025

We will invest in our people and organisation to ensure we get better every day, future-proof our technology, and take advantage of every opportunity to add further value in the payroll and education sectors

### OUR PURPOSE

To deliver an accurate, timely and secure payroll service to schools

### OUR VISION

A world-class payroll service that puts people at the heart of everything we do

### OUR VALUES

#### Make things easier

for all our customers and colleagues

**Work as a team**  
bringing all our strengths together to make things happen

#### Improve through understanding

using evidence to find solutions for changing needs

**Treat everyone with respect**  
value and trust each other to build a great working spirit

#### Learn through doing

try things out, be practical and innovative

### OUR PEOPLE

We work as a people-focused, flexible organisation, help staff realise their potential and grow our leadership

### OUR GOALS

#### Better every day

- deliver a reliable, accurate and increasingly effective and efficient payroll service to schools
- complete residual work packages from the Detailed Business Case

#### Future-proof our technology

- provide secure, supported, sustainable and fit-for-purpose software and platforms

#### Add value in the payroll and education sectors

- work with the Ministry of Education and others to achieve the Government's objectives for education and payroll, and take advantage of opportunities to add value

### OUR FUTURE SUCCESS

Our payroll service reduces administrative and manual effort for schools and our staff, increases our delivery efficiency, and allows us to focus on innovation and business growth

Realise financial and non-financial benefits outlined in the Detailed Business Case

Customer-focused, fit-for-purpose solutions and services that position us well for the future

Our optimised services are set up and allow us to add further value across the payroll and education sectors

**Rārangi Utu ā-Mātauranga**  
**EDUCATION PAYROLL**



2021

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