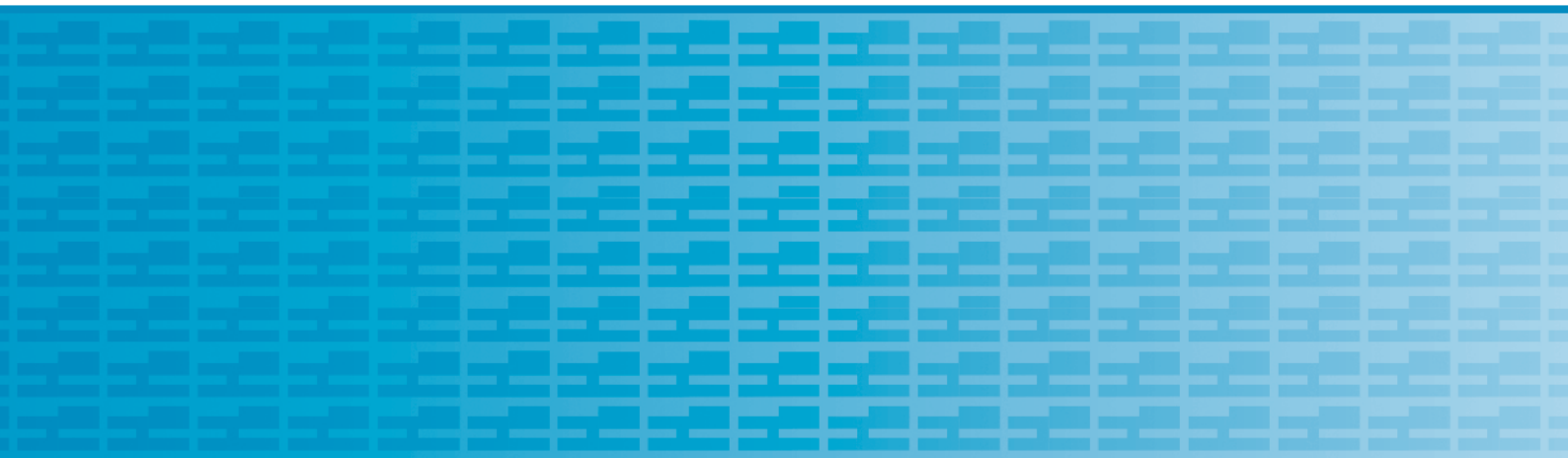




ANNUAL REPORT 2020/21



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

This document is submitted by the Board of EPL, which is accountable to two shareholding ministers, the Minister of Finance and the Minister of Education, as set out in the Crown Entities Act 2004.

Published in September 2021
Education Payroll Limited
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2020/21

EDUCATION PAYROLL LIMITED

ANNUAL REPORT

CONTENTS

INTRODUCTION FROM THE BOARD	1
OUR STRATEGIC FRAMEWORK	2
OUR BUSINESS	3
STATEMENT OF PERFORMANCE	5
OUR ACHIEVEMENTS	8
OUR CUSTOMERS	11
OUR TECHNOLOGY AND SUSTAINABILITY	13
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

INTRODUCTION FROM THE BOARD

Education Payroll Limited (EPL) is justifiably proud of its delivery of the payroll services it has provided to schools. The schools' payroll is complex with a number of unique features, including multiple employment agreements and a diverse range of allowances and pay. Calculations are made 365 days a year, rather than weekly or fortnightly (which is standard with most payrolls). Our agile payroll team is geared towards responding quickly to changes in requirements, the environment and our growing customer base.

We have, during the year, rolled out further features and enhancements to our flagship EdPay portal. In working closely with schools to design these improvements they have told us that they want to be able to do everything in one place and we are closer now to making that a reality.

Following incremental testing and release of new EdPay features over the year, the two highest volume transactions – timesheets and leave – were available to our beta schools in June and to all schools shortly after that. As well as positive feedback from schools, this year EPL was one of five global winners of the Red Hat Innovator of the Year award, in recognition of EdPay's innovative use of open source software.

Each year brings unique challenges and opportunities for our people, who have demonstrated agility and resilience in proving that they can deliver the schools' payroll accurately and on time from anywhere. This positions us well, both for global challenges, such as those that continue to be posed by the COVID-19 pandemic, and more local challenges, such as earthquakes or other natural disasters. Flexible working has been so successful that we have been able to reduce our floor space by 25 percent and redesign our working environment to better reflect flexible working and collaboration as the preferred way of working.

We have also continued our focus on cyber security to ensure the payroll and people's information is safe and secure, against a backdrop of more frequent and complex cyber attacks.

In June we farewelled Cathy Magiannis, a long-serving and valued member of our Board, Chair of the EPL Audit and Risk Committee, who also led the formation of the company. Colin MacDonald QSO, who we welcomed to the Board in 2020, took on the role of Chair of the Audit and Risk Committee in February 2021.

We look forward to the year ahead, with a focus on continued improvements to EdPay, major upgrades to underlying technology and the retirement of Novopay Online. We thank Chief Executive Arlene White and her team for their continued focus on delivering for schools and their hard work throughout the year. 🇬🇧

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



Sandi Beatie QSO
Board Chair
20 September 2021



Colin MacDonald QSO
Board Director and Chair of the
Audit and Risk Committee
20 September 2021

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

OUR BUSINESS

We deliver the schools' payroll accurately and on time to New Zealand state and state-integrated schools each fortnight.

We also:



provide one-on-one phone advice and guidance to school administrators and principals



assess teachers' qualifications and experience to set correct salaries



administer third-party payments, such as ACC, KiwiSaver and student loans



manage overpayments



process and administer ACC claims



BY THE NUMBERS FOR 2020/21

We deliver one of the largest and most complex payrolls in Australasia.

2,500 schools

6,800 school payroll administrators

96,000 teachers and support staff

\$231 million paid to staff per pay period, on average

\$6.0 billion paid to school staff each year

2.5 million payments made each year

102,000 jobs paid per pay period, on average

12,500 payroll instructions received from schools each fortnight, on average

5,400 salary assessment requests received

2,700 ACC claim requests processed

15 collective agreements and **16** corresponding individual employment agreements



99.90 percent
payroll accuracy



100 percent
of payments on
time



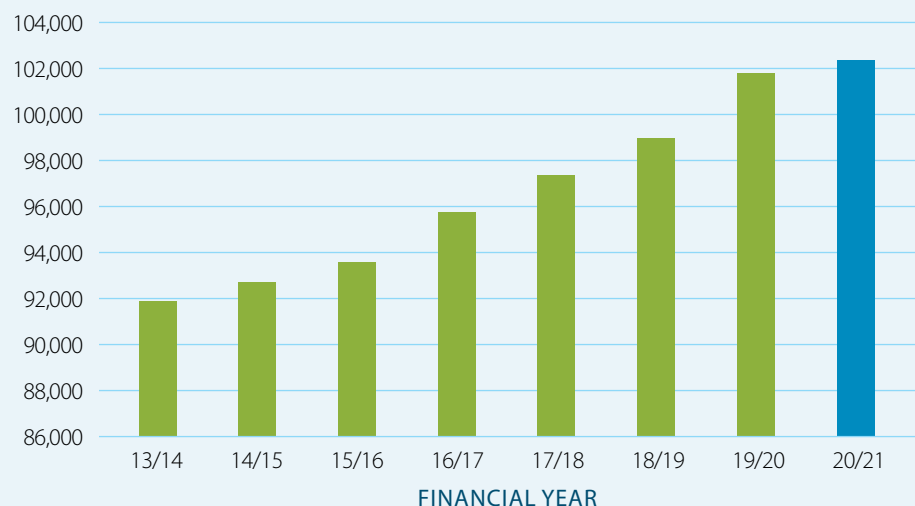
97 percent customer
satisfaction overall
(77 percent satisfied
and 20 percent neutral)



99.96 percent system
availability (apart from
scheduled changes)

Average jobs per pay period

The average number of jobs paid per fortnight is steadily increasing and has grown by around 10,000 since 2014.



STATEMENT OF PERFORMANCE

For 2020/21, EPL's performance was guided by the *2020/21 Statement of Performance Expectations* and the *2018–22 Statement of Intent*.

EPL's output is the successful delivery of the schools' payroll. As part of service delivery to schools, we also manage recovery of payroll-related overpayments, process and administer ACC claims on behalf of schools, and assess teachers' qualifications and experience to determine correct salaries.

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

Year ended 30 June	Actual \$000 2021	Budget \$000 2021	Actual \$000 2020
Total revenue	35,844	27,779	29,631
Total expenditure	28,394	26,688	27,975
Surplus	7,450	1,091	1,656



We measure our success using the following key performance indicators:

CORE PAYROLL SERVICE

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

PERFORMANCE MEASURE	DESCRIPTION	2020/21 actual	2020/21 standard	2019/20 actual
ACCURACY				
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	99.90%	99.50%	99.79%
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	82.60%	80%	80.70%
TIMELINESS				
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%	99.50%	100%
QUALITY				
Customer satisfaction	Survey respondents satisfied with overall quality of service and support they receive	77%	75%	80%

OVERPAYMENT MANAGEMENT

Notification, recovery and administration of payroll-related overpayments.

PERFORMANCE MEASURE	DESCRIPTION	2020/21 actual	2020/21 standard	2019/20 actual
ACCURACY				
New overpayments created	Reduction/(increase) in new overpayments ¹ created compared with the previous year	(18.53%) ²	15%	15.27%
TIMELINESS				
Overpayment notification made on time	Debtors receive their first notification of overpayment within 15 working days of the overpayment discovery ³	99.9%	99.50%	99.80%
1. Where an authority to deduct overpaid salary/allowance is received and processed from an employee's next available pay, no overpayment is recorded and has therefore not been included in this calculation. 2. There has been an increase in overpayments for the current year as a result of database inaccuracies, and changes in the ACC Employer Reimbursement Agreement resulting in changes to contractual amounts. 3. This is either the date of notification from the school/Ministry/third party, or the date EPL discovers the overpayment.				

RESPONSIVE SERVICE

Promptly delivering newly agreed entitlements for school employees.

PERFORMANCE MEASURE	2020/21 actual	2020/21 standard	2019/20 ¹ actual
Implement collective agreements within three pay periods of receiving full business requirements from the Ministry	100%	100%	n.a.
1. This is a new measure, so no figure is available for 2019/20.			

SALARY ASSESSMENT

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

We received approximately 5,400 salary assessment requests in 2020/21.

PERFORMANCE MEASURE	DESCRIPTION	2020/21 actual	2020/21 standard	2021/22 actual
ACCURACY				
Notification of errors related to salary assessment determinations	Transactions received and completed that did not result in notification of errors ¹ or an overpayment related to incorrect salary assessment	100%	99.50%	100%
TIMELINESS				
Salary assessments processed on time	Accurate assessments will be processed within 15 working days from date of receipt ²	100%	100%	100%
1. The reported performance does not capture errors notified by schools, employees or the Ministry. 2. Date of receipt is when the application is complete with all required information for EPL to make an assessment.				

ACC ADMINISTRATION

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

We processed approximately 2,700 ACC claims in 2020/21.

PERFORMANCE MEASURE	DESCRIPTION	2020/21 actual	2020/21 standard	2021/22 actual ¹
ACCURACY				
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	99.10%	99.50%	99.60%
1. The figure for 2019/20 has been revised due to the expansion of data capture for this measure.				

CYBER SECURITY

This new measure reflects the increasing importance of cyber security, both nationally and globally.

PERFORMANCE MEASURE	2020/21 actual	2020/21 standard	2019/20 actual ¹
Number of preventable cyber security critical incidents	0	0	n.a.
Recommendations from the National Cyber Security Centre relating to cyber security critical incidents have been implemented ²	Yes	Yes	n.a.
1. This is a new measure, so no figure is available for 2019/20. 2. This differs from the 2020/21 <i>Statement of Performance Expectations</i> measure, due to changes relating to the evolving cyber security environment and guidance.			

OUR ACHIEVEMENTS

This year our flagship service EdPay has gone from strength to strength and has been our stand-out success story. EdPay has been a step-change in the way schools' pay is processed and has been welcomed by all schools as we move from clunky forms-based Novopay to a faster, simpler and more accurate online system. In 2020 we celebrated one year of EdPay in schools and retired the first of the lengthy and complicated NOVO forms.

Since then we've been progressively retiring forms and adding new features to EdPay, which is designed with schools, for schools. Schools have told us that they want to do everything online and in one place and we're now close to making that a reality. We've laid the foundations for an upgrade of the technology that underlies the core payroll system, which will be completed in 2021/22.

DELIVERING THE SCHOOLS' PAYROLL

We delivered the schools' payroll on time every fortnight, with an improved accuracy rate of 99.9% in 2020/21. All of our work, including the progressive enhancements we make to EdPay, is built around the fortnightly pay cycle.

Our focus is on delivering continuous improvements to schools, tailoring what we do to schools' distinct rhythm of work throughout the year – with very busy start-of-year and end-of-year periods, busy school terms, and quieter holiday periods.

SUPPORTING SCHOOLS

Our payroll advisors provided advice and support to their dedicated groups of school administrators and principals throughout the year and consistently met all performance standards for payroll processing. We ensured that the pay was accurate and on time, even during times of uncertainty, such as during COVID-19 level changes and lockdowns.

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 is highly valued by schools, particularly during periods of change such as the move to EdPay, and helps us to deliver the payroll accurately and on time. Our payroll advisors are supported by our in-house trainer and our newly refreshed knowledge database.

We also responded to changes in employment agreements. Implementing the TAPEC (Teacher Aid Pay Equity Claim) changes this year, for example, involved 20,160 employees (with 21,933 jobs) and these employees needed 40,485 individual changes to funding and rostered hours to ensure this was in line with previously received instructions, and 23,036 allowance records were adjusted or created as part of this change.

A NEW DELIVERY MODEL

The organisation needed to make a complex payroll simple and provide a new online payroll system that was easy to get right and hard to get wrong.

To build a successful online experience for schools, EPL needed new capabilities, a new operating and delivery model, new ways of engaging with our customers, and state-of-the-art technology. The first major step was to deploy EdPay – a customer service application to deliver an online payroll system for schools. We have also taken a look at how we are organised, with a new leadership model that is fit for the future.

EDPAY – THE FUTURE OF SCHOOLS' PAYROLL

EdPay has made payroll tasks easier and reduced manual effort. An increase in straight-through processing means that certain instructions from schools are automated and don't need to be handled by our staff.

This has resulted in efficiency gains for schools through fewer errors and rework and has freed up EPL staff to work on tasks where they can add value. The majority of high-volume tasks are now automated and we are transitioning the remaining tasks from Novopay Online to EdPay.

In November 2020 we celebrated one year of EdPay in schools and have been progressively adding new features to EdPay throughout the year. In 2021/22 we will be focusing on retiring the remaining NOVO forms and decommissioning Novopay Online.

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 and we've been working hard to make that happen.

CUSTOMER FOCUS

We have a test-and-learn approach that's based around the customer experience. Our customer experience team works with our in-house build teams, who write and test the code, and visit schools to test our products. New features are released first to our increasing pool of beta schools, who provide feedback, which allows us to make adjustments before the feature is rolled out to all schools. As well as attending school administrator conferences, the team also develops and releases "How to" guides, videos and FAQs to help guide schools through the changes.

Our teams are cross-functional, with developers, testers, business analysts, service design and change management specialists working collaboratively to deliver an online payroll service that is user friendly and intuitive.





INNOVATOR OF THE YEAR AWARD

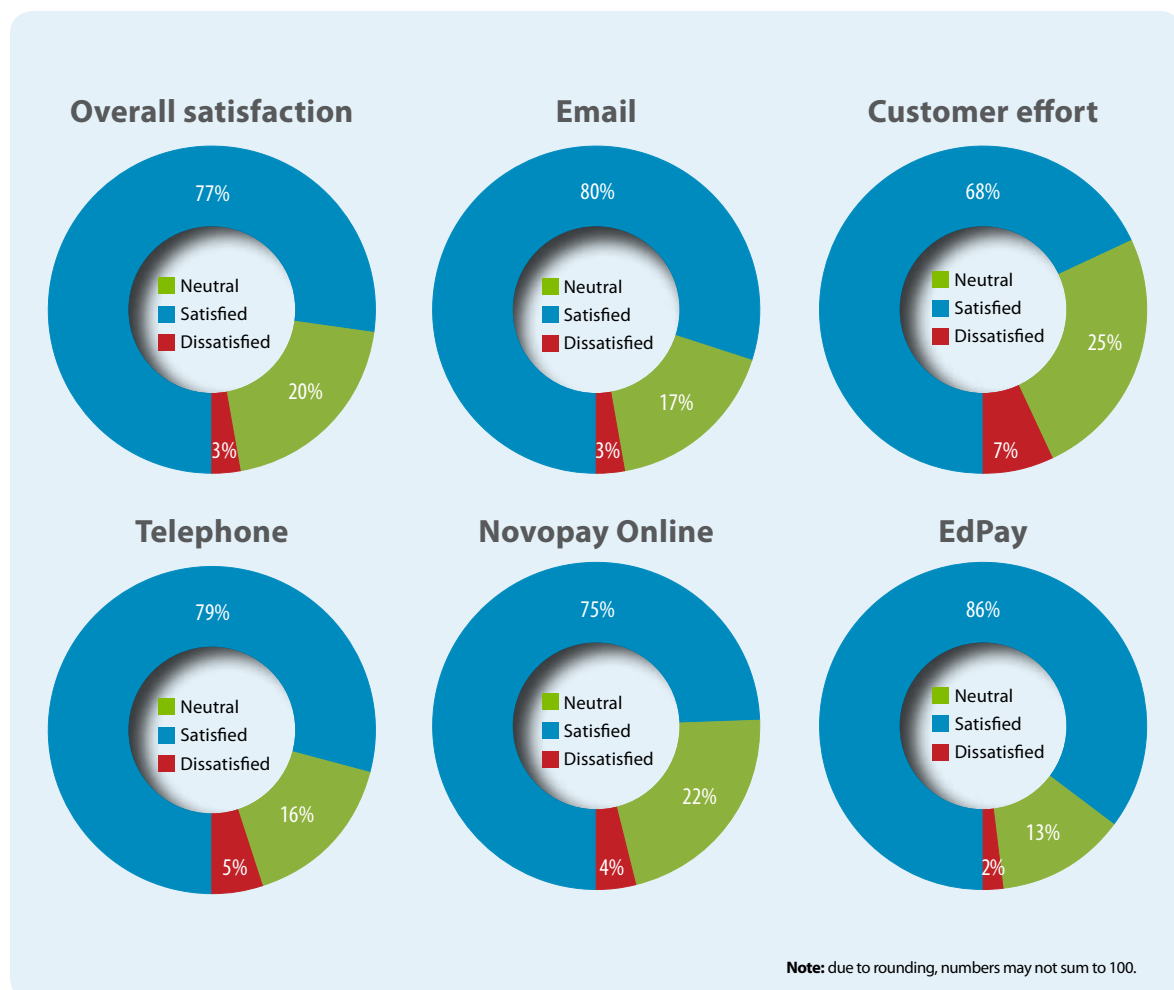
EPL was one of five global winners of the Red Hat Innovator of the Year award for 2021, in recognition of our innovative use of open source software. Our staff worked with local partner Deloitte New Zealand and global partner Red Hat to create a reliable, scalable foundation for EdPay, delivering a streamlined, accessible and efficient experience for school administrators and principals. EdPay is built on a platform that supports near real-time status information and zero-downtime, with regular updates using a test-and-learn approach to add or enhance available features.



OUR CUSTOMERS

Each quarter we send an online customer satisfaction survey to school payroll administrators, principals and others who use our service. Throughout the year the overwhelming theme from comments was that a move to working totally within EdPay couldn't come soon enough.

Survey results for the year showed the overall satisfaction rating (those satisfied and neutral) remained the same as last year, though there was a small decrease in the number who were satisfied and a small increase in neutral ratings. In most areas there was a small decline in satisfaction and a small increase in neutral ratings, apart from Novopay Online, which remained static. Our new measure for EdPay had the highest satisfaction rating, with 86 percent satisfied and 3 percent neutral about the new service. The graphics below show the averages for the year.



WHAT OUR CUSTOMERS SAY ABOUT EdPay

"EdPay is a much better system than Novopay and I can't wait until we are fully on the one system."

"I'm loving it. It's quick. It cuts back workload. It's great for making changes."

"I'm not a big user and have only just started with EdPay – but so far I'm really impressed."

"Keep developing EdPay – it has huge potential to reduce stress and time."

"EdPay seems so much more logical and easy to use, roll on EdPay!!!"

We've received overwhelmingly positive feedback about EdPay, along with great suggestions for future improvements – especially from our beta or test schools.

Our new timesheet and leave functions were particularly well received – here's some feedback from schools:

"I just wanted to say how great I am finding EdPay's new functions – everything is so easy to find and access (reports etc) and the processing side is so much easier. I really like how you can instantly see exactly what you have processed as a great double-check. I haven't touched Novopay Online since you went live with the timesheet and leave processing and report availability on EdPay and am happy not to go back."

"I have just received the email advising of the upcoming changes in EdPay, these are long overdue and will be so easy to use. I welcome the changes."

"Put everything on EdPay!"

"A huge thanks to the teams working behind the scenes for endeavouring to make payroll easier for us."

EdPay 



OUR TECHNOLOGY AND SUSTAINABILITY

The core payroll systems have continued to be stable and available during 2020/21 and are successfully and safely managed.

AGILE APPROACH

We have adopted a Scaled Agile Framework (SAFe) delivery model, which involves customer-centred design, testing, and feedback processes, as well as staged implementation to build familiarity and assurance. Adopting this model at the outset has meant that EPL can deliver new features regularly and respond rapidly to changing priorities and circumstances.

EDPAY

EdPay is robustly built and is secure by design. Its improved validations and system controls have made the payroll easier for school administrators, as well as improving accuracy.

Straight-through processing has increased throughout the year as we added functions to EdPay. In 2021/22, we will release the remaining EdPay functions, retire the remaining Novopay forms, and decommission Novopay Online. We will continue to enhance and improve EdPay.

DISASTER RECOVERY

Our disaster recovery capability continues to be upgraded and enhanced. Full alternate-site disaster recovery is established and proven, along with cyber security upgrades, and modern workplace functionality.

These investments enabled the remote delivery of COVID-19 emergency payments to schools and seamless payroll delivery throughout the lockdown periods. They position us well for the future both in terms of our flexible working approach and ability to run the payroll from anywhere with a secure network, should the need arise.

MODERN WORKPLACE

Our investments in technology, hardware, security and software products in 2019/20 positioned us well for 2020/21 and ensured we could build on our ability to successfully deliver the payroll and make improvements to EdPay from anywhere.

All staff are now fully equipped to work remotely and this has changed the way we connect and work with each other. Working from home, at least some of the time, is now fully embedded in EPL's culture. This made possible a move to reduce our physical footprint at the end of 2020/21, when we relinquished one-quarter of our floor space.

As part of Modern Workplace improvements, we also rolled out a new version of REPLAY, EPL's intranet, and Kete o te Mātauranga, our knowledge base for our payroll administrators in 2020/21.

CYBER SECURITY

Cyber attacks are increasing in frequency and sophistication. Like most government organisations, we face an increasing number of attacks on our systems. EPL has a range of security measures in place to manage this.

To reflect its importance to EPL, we have put in place a new cyber security performance measure for 2020/21. In 2021/22 we will continue to bolster our cyber security capabilities across all systems, hardware and networks and increase staff awareness and training.

RISK MANAGEMENT AND ASSURANCE

EPL identified and managed risks across strategic, operational, financial, cyber security, privacy, and technology environments. The Risk and Assurance team continued with their 'shift-left' and 'real-time' audit approach to provide advice on operational and programme assurance and risks.

Our Organisational Governance Board continued to review and evaluate current and emerging risks, and ensure we took appropriate action to mitigate these.

This year, we continue to add new functionality with systems validations on the front end of EdPay and enabled increased straight-through processing to reduce the risk of errors through manual input.

With EdPay, school administrators have visibility of their employee data. We also updated our Privacy Policy and Statement, in line with the Privacy Act 2020 legislation.

In the assurance space, we engaged PWC as our service auditor and undertook our first ISAE 3402 audit to deliver a Type I report for the 2020 calendar year. This report identified some control improvements, which were largely implemented during the first half of 2021. As in previous years, errors identified by our continuous auditing programme (which runs across a suite of school payroll processing activities) were corrected by the pay centre the next working day. 🇬🇧



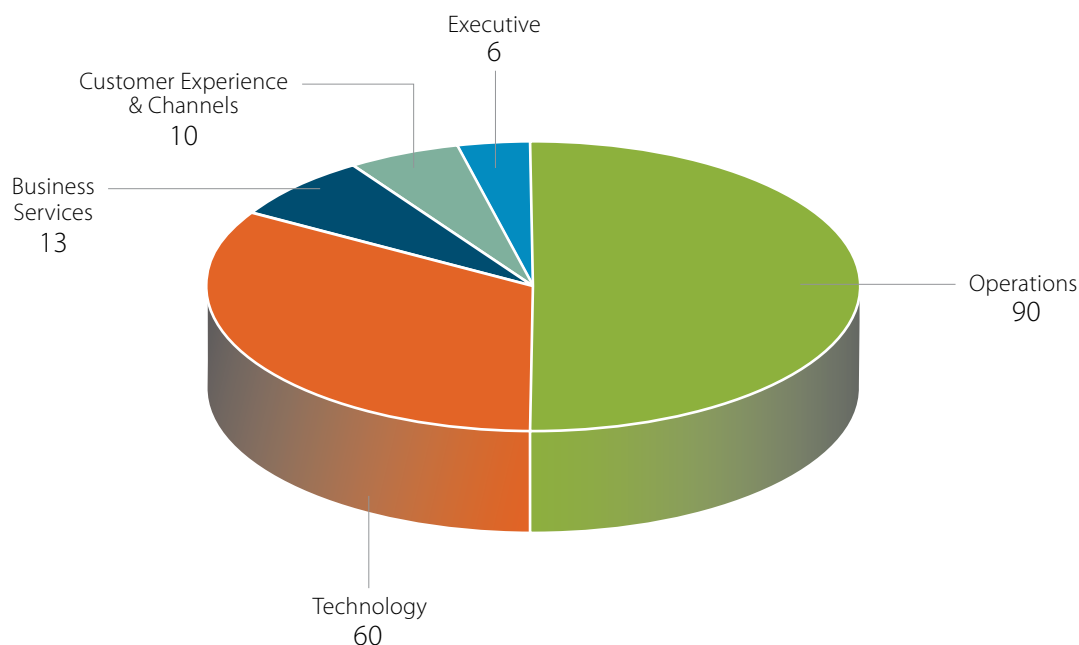
OUR PEOPLE

We see our people as our main asset, making a real difference to how we work and what we do. We have a work environment where people can learn and grow, are engaged in their jobs and contribute to the organisation. Our agile work practices are now in sync with our flexible work practices, so staff can choose to work mostly from home or mostly from the office, with our state-of-the-art technology a key enabler of this.

Resources are carefully balanced between supporting our customers and managing and developing the business. Our payroll advisors are the heart of EPL and provide end-to-end services to their designated schools. They are part of our operations team, with a core of 63 staff that increases over the busy start-of-year and end-of-year periods.

Our specialised technology teams manage the stability and security of the payroll service and are the architects and builders of EdPay. Our permanent employee base is supported by key partners who provide third-party support to specialist areas across the business.

WHERE WE WORK



CAREER DEVELOPMENT

EPL developed and implemented new recruitment principles in March this year. One of the principles is that all vacancies are advertised internally first, and all reasonably qualified candidates are considered on their merits before considering external advertising of the role. This has resulted in a number of internal promotions and opened clearer career pathways for EPL staff.

We support our employees by providing formal and informal staff training programmes for our people and leaders. We encourage staff to explore other roles within the organisation and expand their range of skills and knowledge.

Our company-wide policy encourages “go-sees” where staff from across the business can shadow other teams and gain a greater understanding and appreciation of what they do.

Our dedicated staff trainer delivers training, primarily to those in our operations teams who provide one-on-one advice to their designated schools. This model sits within a training and development framework and includes progression pathways for our payroll advisors.

In 2020/21, we developed a new operating model that includes the right depth and breadth of roles, knowledge, experience and skillsets that are needed for future success. This will be in place in 2021/22.

HEALTH, SAFETY AND WELLNESS

Our active Health, Safety and Wellness Committee has representation from across 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.

We expanded our team of wellness officers this year, with new team members getting special training to help them to support staff.

Our wellness officers continue to offer weekly drop-in “wellness windows” to staff and be 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 also celebrated, with a range of initiatives on offer.

AN ENGAGED TEAM

EPL carried out a pulse survey midway through the year to measure staff engagement. The survey results showed that EPL has a clear sense of purpose and employees have good line of sight about how what they do fits in with the bigger picture.

In December 2020, 88 percent of staff who responded said they understand how their work contributes to the success of the organisation, and 77 percent said they know what is expected of them and what they need to do to succeed.

DIVERSITY AND INCLUSION

Since becoming a member of Diversity Works last year, we are moving to blind hiring practices and are developing 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.

We changed our logo to put te reo Māori first and have installed bilingual signs in parts of the office. We celebrate the many cultures our staff represent with international food tastings, a newsletter, holiday celebrations and other traditions. 🇳🇿

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 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 Performance unit (a business unit of the Treasury) assists shareholding ministers in monitoring the company's performance against financial and non-financial measures. The Ministry of Education contracts EPL for payroll services in accordance with the Master Services Agreement.

CROWN ENTITIES ACT 2004

Under section 450A of the Public Finance Act 1989, some of the provisions of the Crown Entities Act (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 the Companies 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 2020/21.

EPL BOARD

SANDI BEATIE QSO (CHAIR)

Sandi chairs the EPL Board, and holds several other governance roles, including membership of the risk and assurance governance committees of Inland Revenue, and Treasury, and chairs the NZ Police Audit and Risk Committee.

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

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 EPL. Cathy was then made Chief Executive of EPL where she oversaw the initial stages of our intensive work programme to improve the schools' payroll system and service. She joined the EPL Board in 2018.

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, and was Deputy Vice Chancellor, Finance and Technology at Massey University until March 2021.

Cathy stepped down from her role as Chair of EPL's Audit and Risk Committee in September 2020 and retired from her role on the EPL Board on 30 June 2021.

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. 



STATEMENT OF RESPONSIBILITY

The Board is responsible for the preparation of EPL'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 EPL for the year ended 30 June 2021.



Sandi Beatie QSO
Board Chair

20 September 2021



Colin MacDonald QSO
Board Director and Chair of
the Audit and Risk Committee

20 September 2021



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 2021

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

Opinion

We have audited:

- the financial statements of the Company on pages 23 to 38, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Company on pages 6 to 7.

In our opinion:

- the financial statements of the Company on pages 23 to 38:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2021; 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 6 to 7:
 - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2021, 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; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 20 September 2021. 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 Board of 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 opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it 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 Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board of Directors is 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 liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Crown Entities Act 2004.

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 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 Board of 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 Board of 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 Board of 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 Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 5 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* 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.



Sam Nicolle
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand.

FINANCIAL STATEMENTS

The financial statements were approved by the Board and authorised for issue on 20 September 2021.

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2021

Year ended 30 June	Notes	Actual \$'000 2021	Budget \$'000 2021	Actual \$'000 2020
Revenue from exchange transactions				
Sales of services to government		35,844	27,779	29,631
Total operating revenue		35,844	27,779	29,631
Expenses				
Personnel expenses	12	12,313	10,221	11,406
Third-party support		1,665	2,122	4,043
Corporate expenses	6	534	478	560
Auditor's remuneration		64	51	66
Directors' fees	11	118	140	137
Travel & entertainment		14	42	30
Accommodation & facilities		1,097	1,011	970
ICT costs		6,617	6,045	5,428
Depreciation, amortisation & provision for impairment		5,461	6,143	5,082
Total operating expenses		27,883	26,253	27,722
Non-operating items				
Sale of assets		-	-	(9)
Loss on asset disposal		72	-	112
Interest received		(5)	(15)	(24)
Interest expense		444	450	174
Total non-operating items		511	435	253
Total expenses		28,394	26,688	27,975
Total income for the period		7,450	1,091	1,656
Total comprehensive income		7,450	1,091	1,656

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 2021

As at 30 June	Notes	Actual \$'000 2021	Budget \$'000 2021	Actual \$'000 2020
Current assets				
Cash & cash equivalents		12,444	7,763	4,455
Receivables from exchange transactions		6	90	1,225
Prepayments		3,372	1,549	2,935
Total current assets		15,822	9,402	8,615
Non-current assets				
Property, plant & equipment	2	1,787	2,666	1,952
Intangible assets	3	27,039	24,576	21,856
Work in progress		6,681	7,144	8,436
Total non-current assets		35,507	34,386	32,244
Total assets		51,329	43,788	40,859
Represented by				
Current liabilities				
Accruals & payables	4	2,091	2,450	2,168
Employee entitlements		1,072	500	894
Income in advance		318	-	400
Borrowings (current portion)	5	4,000	4,000	-
Total current liabilities		7,481	6,950	3,462
Non-current liabilities				
Borrowings	5	9,225	9,000	10,225
Total non-current liabilities		9,225	9,000	10,225
Total liabilities		16,706	15,950	13,687
Net assets		34,623	27,838	27,172
Shareholders' funds				
Capital contributions	15	25,520	25,520	25,520
Retained earnings		9,103	2,318	1,653
Total shareholders' funds		34,623	27,838	27,173

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 2021

	Notes	Actual \$000 2021	Budget \$000 2021	Actual \$000 2020
Opening balance as at 1 July		27,173	26,747	25,517
Movements:				
Total comprehensive income for year		7,450	1,091	1,656
Balance as at 30 June		34,623	27,838	27,173

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 2021

Year ended 30 June	Notes	Actual \$000 2021	Budget \$000 2021	Actual \$000 2020
Cashflows from operating activities				
Receipts from sales to the Ministry of Education		36,940	27,779	28,336
Receipts from interest		5	15	24
Receipts from other income		39	-	580
Cash inflows from operating activities		36,984	27,794	28,940
Payments to suppliers		10,717	8,835	12,871
Payments to employees		12,038	10,221	10,770
Cash outflows from operating activities		22,755	19,056	23,641
Net cash inflows from operating activities	8	14,229	8,738	5,299
Cashflows from investing activities				
Payments:				
Investment in tangible & intangible assets		8,685	7,212	9,520
Cash outflows from investing activities		8,685	7,212	9,520
Net cash outflows from investing activities		8,685	7,212	9,520
Cashflows from financing activities				
Receipts:				
Proceeds from borrowings		3,000	3,000	6,225
Cash inflows from financing activities		3,000	3,000	6,225
Payments:				
Interest on borrowings		555	450	289
Cash outflows from financing activities		555	450	289
Net cash inflows from financing activities		2,445	2,550	5,936
Net increase in cash & cash equivalents		7,989	4,076	1,715
Cash & cash equivalents at the beginning of year		4,455	3,687	2,740
Cash & cash equivalents at the end of year		12,444	7,763	4,455
Represented by:				
Cash at bank		12,444	7,763	4,455
		12,444	7,763	4,455

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 (EPL) is a Crown entity as defined by the Crown Entities Act 2004 and listed in Schedule 4A of the Public Finance Act 1989. The company resides in New Zealand and operates under the Companies Act 1993. The financial statements disclosed are for the period 1 July 2020 to 30 June 2021.

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

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 PBE standards and have been prepared in accordance with Tier 1 PBE standards.

Budget figures

EPL's 2020/21 budget was adopted by the Board on 22 April 2020 and published on 30 June 2020.

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 preparing 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 EPL becomes a party to the contractual provisions of the financial instrument.

EPL 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 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.

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

EPL's financial liabilities include trade and other creditors, and borrowings that pertain to EPL'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 EPL and the cost of the item can be measured reliably.

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

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

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

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 and 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	4 to 10 years
Developed software	2 to 10 years
Other intangibles	1 to 10 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 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; 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 EPL, 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

EPL 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

EPL has provided the full cost of its output measured on a full accrual accounting basis. EPL 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 EPL 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.

EPL minimises the risk of this estimation uncertainty by:

- physical inspection of assets
- asset replacement programmes.

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 EPL over a number of years that 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 EPL's financial statements and that are expected to have an impact on EPL'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. No material impact is expected. 

1. SALES OF SERVICES TO GOVERNMENT

Rendering services – full cost recovery

Under the latest service level agreement dated December 2017, EPL 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 2021	\$000 Furniture & fittings	\$000 ICT equipment	\$000 Office equipment	\$000 Leasehold improvements	\$000 Total
Opening cost	465	2,458	17	380	3,320
Additions	9	756	48	-	813
Disposals	(55)	(858)	(5)	-	(918)
Closing cost	419	2,356	60	380	3,215
Less accumulated depreciation					
Opening accumulated depreciation	(192)	(1,005)	(9)	(162)	(1,368)
Depreciation for the year	(75)	(665)	(14)	(65)	(819)
Accumulated depreciation written off on disposal	31	723	5	-	759
Closing accumulated depreciation	(236)	(947)	(18)	(227)	(1,428)
Closing balance at 30 June 2021	183	1,409	42	153	1,787
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

3. INTANGIBLE ASSETS

	\$000 Developed software	\$000 Software licenses	\$000 Other intangibles	\$000 Total
Year ended 30 June 2021				
Opening cost	25,076	8,856	5,820	39,752
Additions	7,077	294	2,434	9,805
Disposals	-	-	(309)	(309)
Closing cost	32,153	9,150	7,945	49,248
Less accumulated amortisation				
Opening accumulated amortisation	(8,200)	(5,026)	(4,670)	(17,896)
Amortisation for the year	(3,488)	(556)	(579)	(4,623)
Accumulated amortisation written off on disposal	-	-	310	310
Closing accumulated amortisation	(11,688)	(5,582)	(4,939)	(22,209)
Closing balance at 30 June 2021	20,465	3,568	3,006	27,039

	\$000 Developed software	\$000 Software licenses	\$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

4. ACCRUALS AND PAYABLES

	\$000 2021	\$000 2020
Creditors	1,388	754
Accrued expenses	703	1,414
Total creditors & other payables	2,091	2,168

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

EPL 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 EPL. 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 New Zealand 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 2021	\$000 2020
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	2,000
December 2019 drawdown	3.79%	2,000	2,000
June 2020 drawdown	5.21%	2,225	2,225
September 2020 drawdown	4.49%	3,000	-
Total Crown loan		13,225	10,225
Represented by:			
Current		4,000	-
Non-current		9,225	10,225
Total borrowings		13,225	10,225
The amount of borrowing costs capitalised during the year		110	115

6. CORPORATE EXPENSES

	\$000 2021	\$000 2020
Corporate expenses		
Ministry of Education emergency payment expense	9	116
Fringe benefit tax	20	9
Insurance	128	87
Other corporate costs	149	114
Payslip printing & postage	200	195
Stationery, printing & photocopying	17	30
Other	11	9
	534	560

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 2021	\$000 2020
Loans & receivables:		
Cash & cash equivalents	12,444	4,455
Receivables from exchange transactions	7	1,225
	12,451	5,680
Financial liabilities at amortised costs:		
Accruals & other payables	2,091	2,168
Borrowing	13,225	10,225
	15,316	12,393

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

	\$000 2021	\$000 2020
Net income	7,450	1,656
Add non-cash items		
Depreciation & amortisation expense	5,442	4,712
Loss in disposal	72	112
Other non-cash items	20	371
Net movements in non-cash items	5,534	5,195
Add/(deduct) movements in statement of financial position items		
Trade debtors	756	(741)
Accrued income	462	(383)
Prepayments	(435)	(460)
Trade & other payables	634	(1,130)
Accruals & provisions	(689)	353
Employment entitlements	155	235
Income in advance	(82)	400
Net movements in working capital items	801	(1,729)
Add items classified as investing activities		
Interest paid on borrowing	444	174
Net cash flow from operating activities	14,229	5,299

9. CAPITAL COMMITMENTS

EPL has contracted commitments for the development of property, plant and equipment or intangible assets as at 30 June 2021 of \$0 (2020: \$517,458).

10. OPERATING LEASES AS LESSEE

Future minimum rent payable under operating leases is as follows:

As at 30 June	\$000 2021	\$000 2020
Not later than one year	608	738
Later than one year & not later than five years	628	1,509
Later than five years	-	-
Total non-cancellable operating leases	1,236	2,247

EPL 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 and was subsequently released in July 2021.

EPL 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 DIRECTORS' REMUNERATION

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

	\$000 2021	\$000 2020
Sandi Beatie (Chair)	53	56
Cathy Magiannis	13	28
Marcel van den Assum	26	28
Colin MacDonald	26	25
Total Board member remuneration	118	137

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

Cathy Magiannis retired from the Board on 30 June 2021. Two additional directors, Liz Maguire and David Skinner, have been appointed to the Board with effect from 1 July 2021.

EPL has directors' liability and professional indemnity insurance cover in respect of the liability or costs of Board members and employees.

EPL 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 line with the recommendation of the State Services Commissioner surrounding the COVID-19 pandemic, the directors reduced their fees 20% for one quarter of 2020/21.

12. EMPLOYEE REMUNERATIONS

	\$000 2021	\$000 2020
Wages & salaries	11,095	10,100
Other personnel costs	1,218	1,306
Personnel expenses	12,313	11,406

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

The table below shows total remuneration received by EPL employees (KiwiSaver contributions exclusive) that is equal to or exceeds \$100,000 per annum during the year ended 30 June 2021.

\$ Remuneration band	2021 Number of employees	2020 Number of employees
390,000 to 399,999	1	-
380,000 to 389,999	-	1
290,000 to 299,999	1	-
260,000 to 269,999	-	1
220,000 to 229,999	-	2
210,000 to 219,999	1	-
200,000 to 209,999	2	1
190,000 to 199,999	1	-
160,000 to 169,999	1	2
150,000 to 159,999	3	1
140,000 to 149,999	3	4
130,000 to 139,999	3	2
120,000 to 129,999	2	2
110,000 to 119,999	5	-
100,000 to 109,999	9	8

During the year ended 30 June 2021, one employee received compensation (2020: 0 employees) and other benefits in relation to cessation totalling \$7,712 (2020: \$0).

Key management personnel

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

	\$000 2021	\$000 2020
Key management personnel remuneration		
Senior management	1,555	1,358
Board	118	137
Number of persons recognised as key management personnel	10	9

The Chief Executive of EPL is employed on a fixed-term contract. This contract was renewed in November 2019 for a three-year term.

During the year, the Chief Executive received remuneration of \$390,657, including a period of voluntary 10% reduction in response to the COVID-19 pandemic 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 EPL's group salary continuance and employee life insurance policies.

13. RELATED PARTY TRANSACTIONS

An employee of Inland Revenue was seconded to EPL 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

EPL 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.

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

Liquidity risk

Liquidity risk is the risk that EPL may encounter difficulties in meeting financial liabilities as they fall due.

EPL 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 notes 5 and 7 for maturity profile of financial liabilities.

Credit risk analysis

Credit risk is the risk that a counter-party fails to discharge an obligation to EPL. EPL is exposed to this risk for various financial instruments, for example, by placing deposits. EPL'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 counter-party is a reputable bank with high quality external ratings.

15. EQUITY AND CAPITAL MANAGEMENT

EPL 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 schools' payroll.

EPL'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	2021		2020	
	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 (2020: 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 factors contributing to the increase in revenue of \$8.1m are:

- \$3.8m early contribution from the Ministry of Education towards the Oracle Upgrade Project
- \$1.9m increase in annual base fee from the Ministry of Education
- \$1.6m from the COVID-19 Response and Recovery Fund
- \$0.8m completion of unbudgeted work for the Ministry of Education outside the business-as-usual section of the Master Services Agreement.

No revenue was expected for the Oracle Upgrade Project until 2021/22. Funding from the response and recovery fund was provided to enable EPL to retain key project workforce and invest in technology to ensure continued operation during periods of remote working. The increase in base fee was negotiated with the Ministry of Education under the terms of the Master Services Agreement, reflecting increases in the cost base of existing expenditure.

Operating expenditure is higher than anticipated by \$1.6m. This is due to offsetting spend:

- \$1.6m overall increase in personnel and third-party resources used in the delivery of unbudgeted work to the Ministry of Education, costs of delays to programmes due to COVID-19, and reduction in the full realisation of operational benefits from the Education Payroll Development Programme, due to modifications to the programme timeline
- \$0.6m increase to operational security costs in ICT
- \$0.7m decreased depreciation due to delayed timing on the completion of certain projects.

Surplus: it is necessary for EPL to generate free cash to repay the Crown loan by June 2024 and operate an annual capex programme. However the surplus in 2020/21 was higher than budgeted due to the receipt of additional revenue.

The receipt of cash funding for the Oracle Upgrade Project, as reimbursement income, has had a very significant impact on the surplus achieved by EPL. This is because the Oracle Upgrade Project is a capital expenditure item. The technical mismatch in revenue and expenditure type leads to an inflated surplus.

Statement of financial position

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

Higher current assets is contributed to by:


- the receipt of unbudgeted reimbursement income, reflected in the higher cash and cash equivalent balance
- the payment of annual commitments to be spread across the coming year, reflected in higher prepayments.

Higher non-current assets due to the delivery of EdPay releases and the development phase of the Oracle Upgrade Project.

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.

EPL 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. 

Rārangi Utu ā-Mātauranga
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2020/21

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