

# STATEMENT OF 2022/23 PERFORMANCE EXPECTATIONS



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Education Payroll Limited  
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Incorporated in 2014 under the Companies Act 1993, Education Payroll Limited (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.

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# STATEMENT OF PERFORMANCE EXPECTATIONS

This statement outlines the performance expectations of Education Payroll Limited (EPL) for the year ending 30 June 2023, 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. 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, and should be read alongside it.


Our *Annual Report 2021/22* will detail achievement against the performance expectations outlined in this document.

In addition to delivering schools' fortnightly pay as part of our business as usual, several significant incremental upgrades are planned for the coming years.

EdPay is now the main tool for submitting payroll instructions in schools, Novopay Online was decommissioned in late 2021, and we have upgraded our underlying technology stack. The majority of work packages in the Detailed Business Case have been completed and we will now focus on the remainder of work package 20B – upgrade Ascender Pay. This will also involve replacing the ticketing system and access databases.

Further investment in straight-through processing in EdPay, including teacher onboarding and pay details changes, will be completed in the first half of 2022/23. After this, approximately 90% of all transactions will be directly entered into the system by schools and processed without further intervention.

We will work with the Ministry to progress: the superannuation and termination remediation projects; Holidays Act 2003 compliance requirements; and the change requests we expect to flow from the collective agreements due to be negotiated and settled this year.

Lastly, there are several governance and leadership changes coming up. As terms expire there will be a new Board Chair and two new Board members in 2022/23. In addition, the recruitment process is underway to find a replacement for the Chief Executive, who will retire in November 2022. 

## WHO WE ARE AND WHAT WE DO

EPL is a Crown company established in 2014 to deliver the pay to around 96,000 teachers and support staff in 2,500 schools every fortnight, under the instruction of the Ministry of Education. Our fortnightly pay run averages \$231 million and totals around \$6.0 billion each year, making it one of the largest in Australasia.

The schools' payroll is complex and has many unique requirements, including that pay calculations for most employees are made 365 days a year, instead of on a standard weekly or fortnightly basis. Leave, holiday pay, sick leave and allowances require ongoing recalculation to ensure correct payments. Entitlements change frequently as collective agreements are renegotiated, often involving the collapsing and expanding of pay grade steps.

Employees also frequently hold multiple jobs with differing rates, requirements, and multiple funding sources that must be correctly allocated. We simplify things for schools and employees as much as possible so they are able to get on with the important mahi of teaching and learning.

The schools' payroll is covered by 14 collective agreements, 18 individual employment agreements and multiple allowances. Most collective agreements are due to expire in 2022 and flow-on changes from at least some of these are likely to be required this year.

Our specialist payroll advisors help guide schools through these complexities, drawing on an extensive knowledge base to provide an end-to-end service 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.

We also deliver more than just payroll. Our services include provision of salary assessments for employees as they return from overseas or a break from teaching, or as they move through the grading system. We also manage overpayments and ACC claims.

In recent years, there have been additional changes to the payroll and payments due to COVID-19. Having a flexible and agile payroll service has helped us to deliver these payments to school employees quickly and accurately.

### **Better every day**

We deliver the schools' payroll accurately and on time, like clockwork, each fortnight. We have an organisation-wide focus on simplification and continuous improvement, working with schools to reduce manual effort, both for schools and for EPL staff.

While we work to simplify things where we can in the payroll space, the environment we work in is constantly changing and becoming more complex – for example changes due to COVID-19 and increases in frequency and complexity of cyber security attacks. We work to ensure that the schools' payroll is secure, supported and stable.

Much of what we do keeps in step with the fortnightly pay cycle and the school year, with very busy start-of-year and end-of-year periods where we increase our staff numbers to meet the increased demand for our services. We must ensure we have the flexibility and capacity to respond to changes, alongside the continuing development of the payroll system.

### **EdPay – making payroll easier for schools**

Our faster, more accurate online EdPay system is now being used by all schools for most high volume payroll tasks, and makes it easy to get things right and hard to get things wrong. This has resulted in reduced effort by our customers and greatly increased satisfaction with our overall service.

Schools told us that they wanted to be able to do everything in EdPay – with all of their online changes in one place. On 20 October 2021 we were able to make that happen, when we switched off Novopay Online.

Schools were supported through the transition by payroll advisors, alongside regular updates to schools, training videos, FAQs and quick-start guides.

EdPay has resulted in efficiency gains for schools through fewer errors and rework, and we will continue to refine and make improvements to the service, alongside changes to the remaining NOVO forms. Further investment in straight-through processing in EdPay will be completed in the first half of 2022/23. After this, approximately 90% of all transactions will be directly entered into the system by schools and processed without further intervention.

### Customer at the centre

We design everything with schools, for schools, with the aim of making the system simpler, quicker and more accurate wherever we can. Our specialised technology teams work in an agile way to test, develop and embed new functions and improvements to the system and platforms. EPL has a test-and-learn approach that is based around the customer experience, with our beta or test schools trying and giving feedback on things first, before they are refined and rolled out to all schools.

### Oracle upgrade completed

EPL completed the Oracle database platform upgrade – an upgrade of one of the core payroll system components – in October 2021. The upgrade was a prerequisite to switching off Novopay Online, and enables the next part of the core system rebuild work to be carried out. As part of this rebuild, EPL will review the Ascender pay engine in line with the Ministry of Education's Payroll Strategy.

### Ongoing cyber security focus and business continuity planning

Cyber security is a key focus, and we continue to build on our capabilities to deliver cyber security in line with National Cyber Security Centre good practice. We will do this through working with our cyber security partners and 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 work closely with the Ministry and schools around cyber security threats and issues.

EPL has proven its 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. This includes continuing to work to ensure the security and resilience of all of our technology components and removing legacy technology from the environment. We are making increased use of technology and adapting the way we work and meet to be mostly online.

### Risk management and assurance

EPL identifies and manages risks across strategic, operational, financial, cyber security, privacy, and technology environments. We have an enterprise-wide risk management framework in place, based on Risk Management ISO 31000 standards. In 2021, we started ISAE 3402 Type II audits of payroll

controls for design and operating effectiveness, working jointly with PwC as the service auditor (who provides independent review of our work).


The Audit and Risk Committee monitors key risks and follows up on audit issues. Our Organisational Governance Board regularly reviews and evaluates current and emerging risks, while ensuring that the organisation is taking appropriate actions to mitigate these. These risks are reported to the shareholding ministers. Operational risks are reported to the Ministry through the Payroll Operations and Schools' Payroll Governance Board.

EPL provides assurance through real-time audits, reporting on controls, running regular analytics and conducting short deep-dive reviews or audits when required. We provide shift-left risk and assurance assessments early in the design and build phases of new software development. This means we can evaluate emerging risks and work to eliminate or mitigate them. We continue to make improvements to our continuous auditing of school payroll activities and continuous monitoring audit activities.

### An engaged team

EPL is a great place to work, which is confirmed by our employment Kōrero Mai engagement survey results. We are an agile, cohesive team of around 200 staff members, who work together to deliver the pay each fortnight and make continuous improvements to the payroll system. Our payroll advisors provided support and advice to their dedicated groups of school administrators throughout the year and help them navigate the complexities of the payroll system.

Our technology team work with an award-winning application built on a modern technology stack that enables us to have agile-minded, technology-focused roles in software development, business analysis, testing, scrum practice, product ownership, cloud operations, platform engineering, IT system operations and change design.

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 have many internal opportunities for growth across the organisation, as we pride ourselves on being able to upskill and recruit from within. 

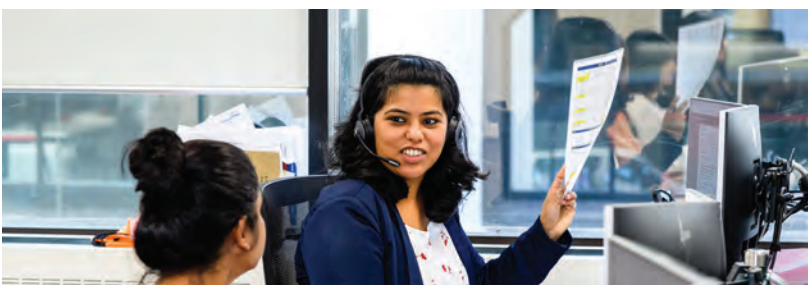
## SERVICE PERFORMANCE EXPECTATIONS

EPL's core business is the successful delivery of 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	Forecast \$000 2021/22	Budget \$000 2022/23
<b>For the 12 months to 30 June</b>			
Revenue	38,342	33,644	31,992
Expenditure	29,482	30,464	31,956
<b>Surplus/(deficit)</b>	<b>8,860</b>	<b>3,180</b>	<b>36</b>



## CORE PAYROLL SERVICE

Our core services relate to the accurate provision of payments and entitlements to school employees. On average, we receive approximately 11,230 payroll instructions every fortnight.

PERFORMANCE MEASURE*	DESCRIPTION	2020/21 actual	2021/22 estimated	2022/23 standard
<b>ACCURACY &amp; TIMELINESS</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	99.90%	99.86%	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	82.60%	83.60%	80%
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>				
Cost of schools' payroll service per employee paid***	EPL service delivery enables productivity gains and cost benefits for the education sector	N/A	N/A	\$250
Customer satisfaction**	Survey respondents satisfied with the overall quality of the service delivery and support received from EPL ****	76.8%	80%	75%
	Customer effort score****	N/A	8.0	8.5
<b>WEBSITE AVAILABILITY</b>				
Service 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%	99.95%	>97.50%
<p>* EPL is working with the Ministry of Education on a Performance Management Framework, with new standards that will reflect improved performance.</p> <p>** These key performance standards are based on the Ministry agreed KPI level (13/12/17). See above.*</p> <p>*** Measure from the Detailed Business Case, dependent on confirmation with the Ministry as to how this will be calculated and the completion of the Education Payroll Development Programme (EPDP).</p> <p>**** Quarterly Customer Satisfaction Survey results. The customer effort score is a new measure, with a scale of 1 to 10 (with 10 low effort and 1 high effort).</p>				

## OVERPAYMENT MANAGEMENT

Notification, recovery and administration of payroll-related overpayments.

PERFORMANCE MEASURE	DESCRIPTION	2020/21 actual	2021/22 estimated	2022/23 standard
<b>ACCURACY</b>				
New overpayments created*	Reductions/(increase) in new overpayments created compared with the previous year	(18.53%)**	3%	15%
The net overpayment debt will be less than a specified level***	The measure of what proportion of third parties are paid accurately in a pay period	N/A	N/A	\$2.0 million or less
<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	99.9%	99.9%	99.5%
<p>* 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 added to this calculation.</p> <p>** Overpayments are due to a range of reasons, including incorrect or late information being provided, and COVID-19 related changes. There was also an increase in overpayments in 2020/21 as a result of database inaccuracies and changes in the Employer Reimbursement Agreement resulting in changes to contractual amounts.</p> <p>*** New measure, due in 2022/23.</p> <p>**** Discovery is either the date of notification from the school/Ministry of Education/third party, or the date EPL discovers the overpayment.</p>				



## SALARY ASSESSMENT

Assessment of teachers' qualifications and relevant experience to determine the correct salary and ensure correct salary payments. We received approximately 5,400 requests for assessments last financial year.

PERFORMANCE MEASURE	DESCRIPTION	2020/21 actual	2021/22 estimated	2022/23 standard
<b>ACCURACY</b>				
Notification of errors related to salary assessment determinations	Salary assessments do not result in overpayments	100%	100%	99.5%
<b>TIMELINESS</b>				
Salary assessments processed on time	Complete assessment applications will be processed within 15 working days from date of receipt*	100%	85%**	100%
* A salary assessment application is classed as received once it has been confirmed as being complete and accurate.				
** There were delays in salary assessment processing in March, April, May and June 2022. This estimate has been revised accordingly, but is likely to change once we have the full data for these months.				

## 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 2,700 ACC claims last financial year.

PERFORMANCE MEASURE	DESCRIPTION	2020/21 actual	2021/22 estimated	2022/23 standard
<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 of Education, ACC, or an overpayment related to the incorrect processing of an ACC claim	99.10%	99.54%	99.50%

## SUSTAINABLE & SECURE ORGANISATION

These measures reflect the use of smart, secure and sustainable practices and technology as a key enabler.

PERFORMANCE MEASURE	2020/21 actual	2021/22 estimated	2022/23 standard
The number of future-proofing or sustainability related issues identified as 'high' priority or above in the annual audit	—	Nil	Nil
Number of preventable cyber-security-critical incidents	0	0	0
Recommendations from the National Cyber Security Centre relating to cyber security critical incidents have been implemented	Yes	Yes	Yes

## RESPONSIVE SERVICE

Promptly delivering newly agreed entitlements for school employees.

PERFORMANCE MEASURE	2020/21 actual	2021/22	2022/23 standard
Implement collective agreements within three pay periods of receiving full business requirements from the Ministry of Education	100%	N/A	100%

## EPL STAFF

Our staff are committed and capable of meeting the organisation's needs.

PERFORMANCE MEASURE	2022/23 standard
Staff engagement	EPL staff engagement survey – employee experience (average) 7.7*
* The baseline in 2019 was 7.2.	

## 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 publication. They contain inherent uncertainties and must be viewed in the context of 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 2022 and are based on information available at that time.



**Sandi Beatie**  
Chair  
Education Payroll Limited



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

## PROSPECTIVE FINANCIAL STATEMENTS ASSUMPTIONS

The prospective financial statements have been based on the following assumptions:

### Revenue and expenditure – 2022/23

The prospective financial statements are based on a forecast year-end position for 2021/22 of a surplus of \$3.18M.

The 2022/23 budget includes a partially successful Budget 2022 bid of \$2.5M and assumes a small surplus. EPL's original 2016 funding model did not include inflation although there is provision for a biennial fees review in the Master Services Agreement with the Ministry.

EPL is a Public Benefit Entity and does not make a profit.

Within this budget there are counterbalancing elements of:

- reduction in revenue due to the completion of the Oracle stack upgrade
- reduction in third-party support costs
- increase in depreciation, largely from the Oracle stack upgrade
- increase in personnel costs due to salary creep
- all operating surpluses are required to be applied against funding for capital expenditure and repayment of the Crown loan.

Other assumptions are:

- we have included an increase of revenue to reflect the successful Budget bid of \$2.5M per year for four years
- a new Chief Executive and General Manager, including recruitment costs
- overall FTE counts are expected to continue to remain stable during 2022/23


- a 2% remuneration increase to be allocated across the organisation
- an estimated increase in rental expense (negotiations are in progress but not yet finalised).

While there are some other change requests in the pipeline, it is unclear which, if any, will be progressed by the Ministry and the degree of resourcing required for them, so no further change to request-related income has been included in this forecast.

No new costs associated with the COVID-19 pandemic have been included in this 2022/23 budget. During the initial COVID-19 lockdown period, EPL incurred small one-off equipment costs that are not expected to recur. EPL is now able to maintain the payroll during an event by working remotely.

### Capital budgets

The 2022/23 capital budget of \$6.3M includes the completion of the Education Payroll Development Programme (EPDP) and phase 1 of the upgrade to the core payroll engine.

It is expected that, due to ongoing development of EdPay, and technology infrastructure, the limited resourcing available will have to be carefully allocated to maximise value to the shareholders. EPL continues to focus on investing carefully to ensure that taxpayers' assets are protected and fully developed. 

PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES  
FOR THE YEARS ENDED 30 JUNE 2022 TO 2023

Year ended 30 June	Notes	Budget \$000 2021/22	Forecast \$000 2021/22	Budget \$000 2022/23
<b>Revenue from exchange transactions</b>				
Sales of services to government	4	38,339	33,616	31,989
<b>Total operating revenue</b>		<b>38,339</b>	<b>33,616</b>	<b>31,989</b>
<b>Expenses</b>				
Personnel expenses		12,242	12,312	13,275
Third-party support		1,358	1,603	651
Corporate expenses		610	636	471
Auditor's remuneration		64	64	64
Directors' fees		140	170	139
Travel & entertainment		37	31	28
Accommodation & facilities		825	935	924
ICT costs		7,412	7,054	7,321
Depreciation & amortisation	10,13	6,342	7,085	8,656
<b>Total operating expenses</b>		<b>29,030</b>	<b>29,890</b>	<b>31,529</b>
<b>Finance income</b>				
Interest received		3	28	4
<b>Finance expenses</b>				
Interest expense		(452)	(574)	(428)
<b>Total finance income/(costs)</b>		<b>(452)</b>	<b>(546)</b>	<b>(424)</b>
<b>Total surplus/(deficit) for the year</b>		<b>8,860</b>	<b>3,180</b>	<b>36</b>
<b>Total comprehensive income</b>		<b>8,860</b>	<b>3,180</b>	<b>36</b>

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

## PROSPECTIVE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022 TO 2023

As at 30 June	Notes	Budget \$000 2021/22	Forecast \$000 2021/22	Budget \$000 2022/23
<b>Current assets</b>				
Cash & cash equivalents	9	6,868	7,582	10,331
Receivables from exchange transactions		2	(412)	(412)
Prepayments		2,668	2,965	2,934
<b>Total current assets</b>		<b>9,538</b>	<b>10,135</b>	<b>12,853</b>
<b>Non-current assets</b>				
Property, plant & equipment	10	2,615	1,157	1,153
Intangible assets	13	31,873	32,508	30,372
Work in progress	11	9,002	6,682	6,681
<b>Total non-current assets</b>		<b>43,490</b>	<b>40,347</b>	<b>38,206</b>
<b>Total assets</b>		<b>53,028</b>	<b>50,482</b>	<b>51,059</b>
<b>Represented by:</b>				
<b>Current liabilities</b>				
Accruals & payables	16	2,658	2,954	3,494
Employee entitlements	18	500	500	500
Current portion of borrowings	17	–	–	9,225 <sup>1</sup>
<b>Total current liabilities</b>		<b>3,158</b>	<b>3,454</b>	<b>13,219</b>
<b>Non-current liabilities</b>				
Borrowings		9,225	9,225	–
<b>Total non-current liabilities</b>		<b>9,225</b>	<b>9,225</b>	<b>–</b>
<b>Net assets</b>		<b>40,645</b>	<b>37,803</b>	<b>37,840</b>
<b>Shareholders' funds</b>				
Capital contributions	19	25,520	25,520	25,520
Retained earnings		15,125	12,283	12,320
<b>Total shareholders' funds</b>		<b>40,645</b>	<b>37,803</b>	<b>37,840</b>

These financial statements should be read with the accompanying notes.

<sup>1</sup> The loan repayments are due 28 June 2024 making them current liabilities as at 30 June 2023. A loan is a current liability when it is due within 12 months.

PROSPECTIVE STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2022 TO 2023

Year ended 30 June	Notes	Budget \$000 2021/22	Forecast \$000 2021/22	Budget \$000 2022/23
<b>Cash flows from operating activities</b>				
Receipts from sales of services for government		38,339	33,616	31,989
Receipts from interest received		3	28	4
<b>Cash inflows from operating activities</b>		<b>38,342</b>	<b>33,644</b>	<b>31,993</b>
Payments to suppliers		(9,760)	(9,695)	(9,025)
Payments to employees		(12,242)	(12,312)	(13,275)
<b>Cash outflows from operating activities</b>		<b>(22,002)</b>	<b>(22,007)</b>	<b>(22,300)</b>
<b>Net cash inflows from operating activities</b>		<b>16,340</b>	<b>11,637</b>	<b>9,693</b>
<b>Cash flows from investing activities</b>				
<i>Payments:</i>				
Investment in tangible & intangible assets		(8,797)	(11,924)	(6,516)
<b>Cash outflows from investing activities</b>		<b>(8,797)</b>	<b>(11,924)</b>	<b>(6,516)</b>
<b>Net cash outflows from investing activities</b>		<b>(8,797)</b>	<b>(11,924)</b>	<b>(6,516)</b>
<b>Cash flows from financing activities</b>				
<i>Receipts:</i>				
Proceeds from Crown loan drawdowns		–	–	–
<b>Cash inflows from financing activities</b>		<b>–</b>	<b>–</b>	<b>–</b>
<i>Payments:</i>				
Prepayments of borrowings		(4,000)	(4,000)	–
Interest on borrowings		(569)	(574)	(428)
<b>Cash outflows from financing activities</b>		<b>(4,569)</b>	<b>(4,574)</b>	<b>(428)</b>
<b>Net cash inflows/(outflows) from financing activities</b>		<b>(4,569)</b>	<b>(4,574)</b>	<b>(428)</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>2,974</b>	<b>(4,861)</b>	<b>2,749</b>
Cash & cash equivalents at the beginning of year	9	3,894	12,443	7,582
<b>Cash &amp; cash equivalents at the end of year</b>		<b>6,868</b>	<b>7,582</b>	<b>10,331</b>
<b>Represented by:</b>				
Cash at bank		6,868	7,582	10,331

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

## PROSPECTIVE STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 30 JUNE 2022 TO 2023

	Budget \$000 2021/22	Forecast \$000 2021/22	Budget \$000 2022/23
<b>Opening balance</b>	31,785	34,623	37,804
<i>Movements:</i>			
Capital contributions	–	–	–
<b>Total comprehensive income for year</b>	<b>8,860</b>	<b>3,180</b>	<b>36</b>
<b>Balance as at 30 June</b>	<b>40,645</b>	<b>37,803</b>	<b>37,840</b>

## EPL CAPITAL EXPENDITURE FOR THE YEARS ENDED 30 JUNE 2022 TO 2023

	Notes	Budget \$000 2021/22	Forecast \$000 2021/22	Budget \$000 2022/23
Plant, property & equipment	10	925	611	925
Intangible assets	13	6,212	11,313	5,591
<b>Total</b>		<b>8,797</b>	<b>11,924</b>	<b>6,516</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 2023. 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 TRANSACTIONS

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, 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 Services 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 of the EdPay system and capture of the financial benefits outlined in the DBC. 

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



2022