

STATEMENT OF 2023/24 PERFORMANCE EXPECTATIONS





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STATEMENT OF PERFORMANCE EXPECTATIONS

This statement outlines the performance expectations of Rārangī Utu ā-Mātauranga Education Payroll Limited (EPL) for the year ending 30 June 2024. It 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. Founded in 2014, EPL provides payroll services to New Zealand's schools. Ownership is held equally between two shareholding ministers, the Minister of Finance and the Minister of Education, and EPL is governed by a Crown-appointed board of directors.

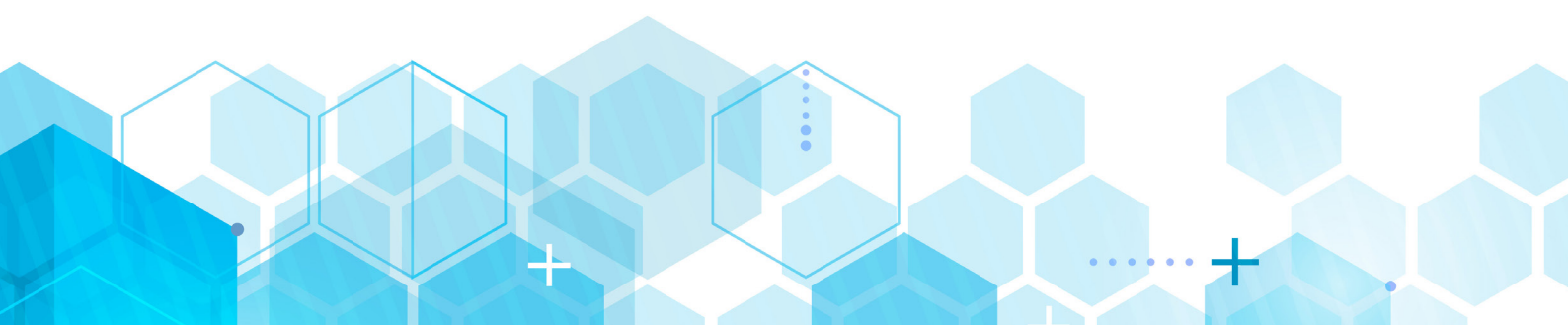
This document aligns with our *Statement of Intent (SOI) 2021–25*, which gives a longer term view of our organisation, strategic goals, context, direction and aspirations, and should be read alongside it. EPL's SOI will be refreshed in 2024/25. Our *Annual Report 2022/23* will detail achievement against the performance expectations outlined in the *2022/23 Statement of Performance Expectations (SPE)*.

Delivering accurate and timely pay to schools' employees each fortnight is our core business, and we work with schools using a combination of payroll expertise and technology to ensure this happens. The schools' payroll is one of the largest and most complex in Australasia and our EdPay portal makes it easier for schools to submit payroll instructions and get it 'right first time'.

We are continuing to refine and enhance EdPay, the main tool for submitting payroll instructions in schools. Alongside this, we are continuing to upgrade our underlying technology, following the Oracle upgrade in 2021.

Further investment in EdPay will enable more changes made by schools to happen in real time, rather than being processed by EPL staff once submitted. As well as being quicker and better for schools, this frees up EPL staff to work on other payroll tasks.

We will continue to implement change requests from the Ministry of Education (the Ministry) and to work with them to progress superannuation, termination and Holidays Act 2003 remediation, and implement any changes arising from collective agreement and pay equity settlements. We will also work with the Ministry to help design and deliver their *Future of Schools and Kura Payroll* work programme. 



WHO WE ARE AND WHAT WE DO

We pay around 96,000 teachers and support staff in 2,500 schools every fortnight. Our fortnightly pay run averages \$242 million and totals around \$6.3 billion each year, making it one of the largest in Australasia. EPL, a Crown company, was established in 2014 to deliver the schools' payroll, through a contract with the Ministry of Education (the Ministry).

The schools' payroll is complex and we work to simplify things for schools and employees, so they are able to get on with the important mahi of teaching and learning. One unique requirement is that pay calculations for most employees are made 365 days a year, instead of on a standard weekly or fortnightly basis, so leave, holiday pay, sick leave and allowances need regular recalculation to ensure correct payments. Entitlements such as pay grades and rates, allowances and increments change when collective and individual employment agreements are renegotiated.

Employees also frequently hold multiple jobs with differing rates, requirements, and multiple funding sources that must be correctly allocated. On average, we pay people who are in 103,000 different jobs each fortnight.

The schools' payroll is covered by 15 collective agreements, 18 individual employment agreements and multiple allowances. Many of the collective agreements expired in 2022, and EPL has been working with the Ministry to put into effect changes arising from each collective agreement settlement within three pay periods of receiving the requirements from the Ministry.

Our *Payroll Update* newsletters, our edpay.govt.nz website, and training materials help guide schools through these complexities and any updates, with EPL's payroll advisors providing an end-to-end service to their designated schools. 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 test some of our new EdPay releases with beta or test schools and use that feedback to fine-tune the release before making it available to all schools. It's the combination of people, process and technology that helps us to deliver the payroll accurately and on time.

We manage ACC claims and overpayments and provide salary assessments for new teachers, teachers returning after a break from teaching or teaching overseas, and overseas-trained teachers.

In 2022/23, a number of pay equity claims were settled, along with several collective and individual employment agreement changes. We've developed some tools to improve the flexibility of our payroll system to deliver these payments to school employees quickly and accurately. Our ability to work remotely allows us to pivot to respond to changes such as COVID-19 lockdowns and significant weather events.

Better every day

We deliver the schools' payroll accurately and on time 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 increases in frequency and complexity of cyber security attacks. We work to ensure the schools' payroll is secure, supported and stable.

Our work revolves around the fortnightly pay cycle and the school year, with very busy start-of-year and end-of-year periods. During busy times, we increase our staff numbers and train new staff to help meet the increased demand for our services and when specific schools' payroll processes must be completed within a short period of time. We must ensure we have the flexibility and capacity to respond to changes, while we continue to develop the payroll system.



EdPay – fast, accurate online payroll for schools

The EdPay portal is the main tool used by schools' payroll staff to submit and monitor their school's payroll instructions. EdPay makes it easy to get things right and hard to get things wrong, with built-in validations for some types of information.

Making EdPay easier to use helps schools' payroll staff to get things right the first time, which reduces the frustration caused by errors and rework. We are continuing to refine and make improvements to EdPay, so fewer transactions need manual processing. EdPay features and functions are designed with schools, for schools, and we use feedback from schools to improve the overall product and user experience.

To support EdPay and help new authorised users learn the payroll system, we have refreshed our training materials for schools and expanded our training topics. This enables authorised users to learn about EdPay at their own pace and choose the topics that best suit their needs. Whenever a new feature or function is rolled out in EdPay, we let schools know through our *Payroll Update* newsletters, and update information on our support website www.edpay.govt.nz.

Customer at the centre

We design everything with schools, for schools, and aim to understand their needs. We're trying to make the system simpler, quicker and more accurate wherever we can. Our customer-focused teams work with our specialised technology teams and our customers to test, develop and embed new functions and make improvements to the EdPay system and other payroll functions, such as salary assessments. 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.

We visit schools to get valuable in-person feedback, which helps us improve our products and services. Our regular alerts, *Payroll Update* newsletters, training materials, new resources and website content all help to keep schools informed about payroll matters, and our regular Customer Satisfaction Surveys, conferences and feedback emails help us to keep our finger on the pulse.

Payroll system upgrade and replacement work

We are working to upgrade or replace components of the core payroll system. Two major deliverables were completed in late 2021 – the Oracle database platform upgrade and the replacement of Novopay Online with EdPay (as the system for schools to submit their payroll instructions). Since then, our focus has been on adding features and functions to EdPay that benefit both schools and EPL staff. The next part of the payroll system upgrade is the building of calculation engines to cater for the unique requirements of the education sector payroll.

Our plans to upgrade the education sector payroll will inform, and will be informed by, our work with the Ministry on their *Future of Schools and Kura Payroll* work programme.

Cyber security continues to be a key focus area

We are evolving how we maintain our security environment, by following National Cyber Security Centre good practice to keep up to date with the national and international cyber security threat landscape. We work closely with our cyber security partners and continue to implement 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, schools and other agencies around cyber security threats and keep our staff informed of issues as they arise.

Business continuity planning

EPL has proven its capability and capacity to deliver the payroll with staff working from home, satellite offices, or anywhere with a secure broadband connection. We will continue to keep pace with technology and maintain and refresh our assets to ensure we've got good business continuity planning and practice. This includes maintaining the security and resilience of all our technology components and removing legacy technology from our environments.

We are making more use of technology and have adapted the way we work and meet to allow us to do most things online. A successful switch of our payroll system to a server in Auckland, with the server in Wellington now the back-up server, has increased our resilience.



Risk management and assurance

Our risk management framework uses real-time audit and analysis to identify and manage risks across the organisation. This means managers can make decisions with real-time risk assessment, especially in the security, project and development areas. We work in partnership with PwC to ensure that payroll controls are designed and working as intended, using the ISAE 3402 assurance framework. We conduct deep-dive reviews of processes and make recommendations for any improvements we identify.


More in-built data validations in EdPay improve the accuracy of payroll transactions and new EdPay features give schools greater visibility of their school's payroll transactions. EPL uses an analytics tool to provide continuous auditing of all EdPay transactions, and checks daily payroll processing against key business rules, and pay calculations. The Audit and Risk Committee monitors key risks and follows up on audit issues. Our Executive Leadership Team regularly reviews and evaluates current and emerging risks and ensures that EPL is taking appropriate actions to mitigate these.

An engaged team

We want EPL to be a great place to work. An agile, cohesive team of around 200 staff members work together to deliver the pay each fortnight and make continuous improvements to the payroll system.

Our technology team works with an award-winning application built on a modern technology stack that uses the latest cloud platform services. Our team includes agile-minded, technology-focused roles in software development, business analysis, testing, scrum practice, cloud operations, platform engineering, IT system operations and change design.

Pay run coordinators and system administrators run the fortnightly payroll. EPL's payroll advisors provide expert advice and support to school administrators and principals on the unique aspects of the schools' payroll, and our staff include ACC, tax and salary assessment specialists. Our core business is supported by our corporate specialists in risk and assurance, people and leadership, finance, communications, service design and engagement.

We have flexible work practices, an emphasis on the wellbeing of our people, and are committed to being a good employer. To us this means providing a modern environment where employees feel valued and are respected, where difference is celebrated, and diversity is encouraged. Staff retention and succession planning is a strategic focus for EPL, as is finding new ways to develop our current and emerging leaders through wider public service opportunities. 



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 2022/23	Forecast \$000 2022/23	Budget \$000 2023/24
For the 12 months to 30 June			
Revenue	31,993	33,971	38,720
Expenditure	31,957	30,529	33,404
Surplus/(deficit)	36	3,442	5,316



CORE PAYROLL SERVICE

Our core services relate to the accurate provision of payments and entitlements to school employees. On average, we receive approximately 11,850 payroll instructions every fortnight.

PERFORMANCE MEASURE	NOTES	DESCRIPTION	2021/22 actual	2022/23 estimated	2023/24 standard
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	99.76%	98.48%	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	83.63%	83.90%	80.00%
TIMELINESS					
Pay timeliness as indicated by the time employees are paid on the due date		Bank files delivered before 12pm before due pay day	100.00%	100.00%	100.00%
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	99.98%	98.91%	99.50%
QUALITY					
Cost of schools' payroll service per employee paid	1	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 from EPL	86.25%	77.33%	75%
	2	Customer effort score	7.9	7.5	75%
WEBSITE AVAILABILITY					
Service website availability		Availability to school payroll service users of the website for obtaining and submitting information (7am to 7pm, seven days a week)	99.94%	99.75%	>97.50%
<ol style="list-style-type: none"> This is a new measure due in 2022/23. The figure given is the target only and the method of calculation will need to be agreed with the Ministry of Education (tables need to be able to stand alone) following the completion of the Education Payroll Development Programme (EPDP). The actual cost figure for 2022/23 may therefore not be available. Quarterly Customer Satisfaction Survey results. The customer effort score has a scale of 1 to 10 (with 10 low effort and 1 high effort) and measures how easy respondents find it to manage and understand their school's payroll, and avoid making payroll errors. 					

OVERPAYMENT MANAGEMENT

Notification, recovery and administration of payroll-related overpayments.

PERFORMANCE MEASURE	NOTES	DESCRIPTION	2021/22 actual	2022/23 estimated	2023/24 standard
ACCURACY					
New overpayments created	1, 2	Increase/(reductions) in the number of new overpayments created compared with the previous year	9.81%	50.10%	(15.00%)
The net overpayment debt will be less than a specified level	3	The measure of what proportion of third parties are paid accurately in a pay period	N/A	\$3.308 million	\$2.0 million or less
TIMELINESS					
Overpayment notification made on time	4	Employees receive their first letter notification of overpayment within 15 working days of the overpayment being discovered	99.90%	87.71%	99.50%
<ol style="list-style-type: none"> 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. Overpayments are due to a range of reasons, including incorrect or late information being provided by the school and COVID-19 related changes. In 2022/23, changes to the pay cycle and cut-off dates have contributed to an increase in overpayments. New measure for the SPE in 2022/23. Debt level is higher than expected due to embargo periods on collecting debt and embargoed geographic areas (eg following Cyclone Gabrielle). Discovery is either the date of notification from the school/Ministry of Education/third party, or the date EPL discovers the overpayment. The timeliness measure was impacted by Cyclone Gabrielle. 					

SALARY ASSESSMENT

Assessment of teachers' qualifications and relevant experience to determine the correct salary and ensure correct salary payments. We received approximately 5,100 requests for assessments in 2021/22.

PERFORMANCE MEASURE	NOTES	DESCRIPTION	2021/22 actual	2022/23 estimated	2023/24 standard
ACCURACY					
Notification of errors related to salary assessment determinations		Salary assessments do not result in overpayments	100%	99.83%	99.50%
TIMELINESS					
Salary assessments processed on time	1, 2	Complete assessment applications will be processed within 15 working days from date of receipt	74.56%	98.48%	100.00%
1. A salary assessment application is classed as received once it has been confirmed as being complete and accurate. 2. There were delays in salary assessment processing in March, April, May and June 2022, which had a cumulative effect and carried over until July 2022, when they were resolved. This has affected the data for the first month of 2022/23.					

ACC ADMINISTRATION

Processing and administration of ACC claims on behalf of schools, in accordance with the Employment Reimbursement Agreement with the Ministry of Education. We processed approximately 1,800 ACC claims in 2021/22.

PERFORMANCE MEASURE	DESCRIPTION	2021/22 actual	2022/23 estimated	2023/24 standard
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 of Education, ACC, or an overpayment related to the incorrect processing of an ACC claim	99.45%	98.47%	99.50%

SUSTAINABLE & SECURE ORGANISATION

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

PERFORMANCE MEASURE	NOTES	2021/22 actual	2022/23 estimated	2023/24 standard
The number of future-proofing or sustainability related issues identified as 'high' priority or above in the annual audit	1	—	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
1. This is a new measure for 2022/23.				

RESPONSIVE SERVICE

Promptly delivering newly agreed entitlements for school employees.

PERFORMANCE MEASURE	NOTES	2021/22 actual	2022/23 estimated	2023/24 standard
Implement collective agreements within three pay periods of receiving full business requirements from the Ministry of Education	1	N/A	100%	100%
1. There were no collective agreements settled in 2021/22.				

EPL STAFF

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

PERFORMANCE MEASURE	NOTES	2021/22 actual	2022/23 estimated	2023/24 standard
EPL staff engagement survey — employee experience (average)	1	7.7	7.7	7.7
1. 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 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 2023 and are based on information available at that time.



Naomi Ferguson
Chair
Education Payroll Limited



Liz Maguire
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 – 2023/24

The prospective financial statements are based on a forecast year-end position for 2022/23 of a surplus of \$3.4 million.

The 2023/24 budget has included an increase of \$5.8 million in revenue as part of the Budget 2023 bid process.

EPL is forecasting increases in costs, including labour market pressures, increases in inflation, additional cyber security requirements and priority work related to the maintenance and development of the core payroll systems. EPL has identified savings, where possible, to offset these pressures.

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


Within this Budget the following assumptions have been made:

- increase in revenue
- the loan of \$9.225 million is paid on time on 28 June 2024
- costs are reduced by \$3.5 million from 2023/24 to match the reduction in capital expenditure. This has been taken from contractor costs
- overall FTE counts are expected to remain stable during 2023/24
- inflation has been applied at 6% for salaries for 2023/24

- Consumers Price Index (CPI) of 5% has been applied for most other expense categories
- depreciation is based on intangible assets having up to 10 year useful lives
- 2022/23 includes a reduction in accommodation expenses due to building issues, and 2023/24 includes an increase in rental expense assuming a return to normal accommodation arrangements.

Capital budgets

The 2023/24 capital budget of \$6.5 million includes \$0.5 million for technology infrastructure improvements and business as usual capital, and \$6 million for other developments.

We expect that the limited resourcing available will have to be carefully allocated to maximise value to the shareholders to continue the development of EdPay and build the resilience of our technology infrastructure. This plan does not include the additional funding required for the Payroll Upgrade. 



PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES FOR THE YEARS ENDED 30 JUNE 2023 TO 2024

Year ended 30 June	Notes	Budget \$000 2022/23	Forecast \$000 2022/23	Budget \$000 2023/24
Revenue from exchange transactions				
Sales of services to government	4	31,989	33,459	38,000
Total operating revenue		31,989	33,459	38,000
Expenses				
Personnel expenses		13,275	13,842	15,911
Third-party support		651	1,588	1,203
Corporate expenses		471	881	744
Auditor's remuneration		64	47	95
Directors' fees		139	134	139
Travel & entertainment		28	26	26
Accommodation & facilities		924	368	762
ICT costs		7,321	7,114	8,092
Depreciation & amortisation	10, 13	8,656	6,100	6,002
Total operating expenses		31,529	31,100	32,974
Finance income				
Interest received		4	512	720
Finance expenses				
Interest expense		(428)	(429)	(430)
Total finance income/(costs)		(424)	83	290
Total surplus/(deficit) for the year		36	3,442	5,316
Total comprehensive income		36	3,442	5,316

These financial statements should be read with the accompanying notes.

PROSPECTIVE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023 TO 2024

As at 30 June	Notes	Budget \$000 2022/23	Forecast \$000 2022/23	Budget \$000 2023/24
Current assets				
Cash & cash equivalents	9	10,331	12,677	8,271
Receivables from exchange transactions		(412)	1,610	1,610
Prepayments		2,934	2,594	2,594
Total current assets		12,853	16,881	12,475
Non-current assets				
Property, plant & equipment	10	1,153	2,051	2,211
Intangibles	11	30,372	36,579	36,917
Work in progress	13	6,681	636	636
Total non-current assets		38,206	39,266	39,763
Total assets		51,059	56,147	52,238
<i>Represented by:</i>				
Current liabilities				
Accruals & payables	16	3,494	4,043	4,479
Employee entitlements	18	500	936	500
Current portion of borrowings	17	9,225	9,225	-
Total current liabilities		13,219	14,204	4,979
Non-current liabilities				
Borrowings		-	-	-
Total non-current liabilities		-	-	-
Net assets		-	-	-
Shareholders' funds				
Capital contributions	19	25,520	25,520	25,520
Retained earnings		12,320	16,423	21,739
Total shareholders' funds		37,840	41,943	47,259

These financial statements should be read with the accompanying notes.

PROSPECTIVE STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2023 TO 2024

Year ended 30 June	Notes	Budget \$000 2022/23	Forecast \$000 2022/23	Budget \$000 2023/24
Cash flows from operating activities				
Receipts from sales of services for government		31,989	33,459	38,000
Receipts from interest received		4	512	720
Cash inflows from operating activities		31,993	33,971	38,720
Payments to suppliers		(9,025)	(10,934)	(11,060)
Payments to employees		(13,275)	(13,842)	(15,911)
Cash outflows from operating activities		(22,300)	(24,776)	(26,971)
Net cash inflows from operating activities		9,693	9,195	11,749
Cash flows from investing activities				
<i>Payments:</i>				
Investment in tangible & intangible assets		(6,516)	(10,546)	(6,500)
Cash outflows from investing activities		(6,516)	(10,546)	(6,500)
Net cash outflows from investing activities		(6,516)	(10,546)	(6,500)
Cash flows from financing activities				
<i>Payments:</i>				
Prepayments of borrowings		-	-	(9,225)
Interest on borrowings		(428)	(429)	(430)
Cash outflows from financing activities		(428)	(429)	(9,655)
Net cash inflows/(outflows) from financing activities		(428)	(429)	(9,655)
Net increase/(decrease) in cash & cash equivalents		2,749	(1,780)	(4,406)
Cash & cash equivalents at the beginning of year	9	7,582	14,457	12,677
Cash & cash equivalents at the end of year		10,331	12,677	8,271
<i>Represented by:</i>				
Cash at bank		10,331	12,677	8,271

These financial statements should be read with the accompanying notes.

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 30 JUNE 2023 TO 2024

Year ended 30 June	Budget \$000 2022/23	Forecast \$000 2022/23	Budget \$000 2023/24
Opening balance	37,804	38,501	41,943
<i>Movements:</i>			
Capital contributions	–	–	–
Total comprehensive income for year	36	3,442	5,316
Balance as at 30 June	37,840	41,943	47,259

EPL CAPITAL EXPENDITURE FOR THE YEARS ENDED 30 JUNE 2022 TO 2024

Year ended 30 June	Notes	Budget \$000 2022/23	Forecast \$000 2022/23	Budget \$000 2023/24
Plant, property & equipment	10	925	1,050	650
Intangible assets	13	5,591	9,496	5,850
Total		6,516	10,546	6,500

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 (the Ministry) 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. 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 2024. 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 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 |
| • ICT equipment | 2–10 years |
| • furniture & fittings | 3–12 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 asset 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.

Our policy of asset lives of up to 10 years for intangible assets where no foreseeable end of life is evident:

- is consistent with the age and estimated service potential of the assets that support the core payroll system
- recognises that gradual obsolescence occurs with changing business requirements
- recognises that the cost of maintaining interoperability and security of the core systems may become too expensive.

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

Labour capitalisation

Contractors and consultants are charged directly to capital projects based on their statements of work.

The Finance team has reviewed the historical rates used for labour capitalisation for employees. Our review of these rates resulted in:

- recalculation of charge rates based on current actual costs
- an increase in the number of blended rate bands to better reflect the range of skills and associated costs of EPL staff working on capital projects
- a more accurate allocation of indirect overheads.

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 rates are used in the calculation of amortisation of intangible assets:

- | | |
|---------------------|-----------------|
| • software licenses | 2–10 years |
| • intangibles | up to 10 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). The remaining loan balance of \$9.225 million is due for payment on 28 June 2024 and is treated as a current liability at 30 June 2023.

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, and 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 continues through a Master Services Agreement with the Ministry
- EPL is a going concern and no alternative arrangements have been proposed for the delivery of payroll services to the education sector at this time
- continued roll-out of the EdPay system and capture of the financial benefits outlined in the Detailed Business Case. 



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