

Statement of Performance Expectations **2024–2025**

Rārangī Utu ā-Mātauranga
EDUCATION PAYROLL



MAY 2024

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Education Payroll

Incorporated in 2014 under the Companies Act 1993, Education Payroll Limited is a Crown entity, as defined by the Crown Entities Act 2004, and is listed in Schedule 4A of the Public Finance Act 1989.

Statement of Performance Expectations

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

This document sets out the strategic and operational performance expectations and forecast financial statements of Education Payroll Limited for the period 1 July 2024 to 30 June 2025, to meet its statutory requirements pursuant to the Crown Entities Act 2004.

Published in May 2024

Education Payroll Limited

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1. CHAIR'S FOREWORD

This *Statement of Performance Expectations 2024–2025* (SPE) sets out our strategic and operational performance expectations and prospective financial statements for the 2024–25 financial year. This document has been written in the context of the Letter of Expectations of our shareholding ministers for the same period, and should also be read in conjunction with our *Statement of Intent 2024–2028*.

As a result of the now-completed Education Payroll Development Programme, we are at or near all of our operational performance targets. We will focus our performance improvement activity where we are able to address performance issues within existing funding. We are also establishing a series of strategic workstreams that will be managed using our existing Agile development process to ensure we achieve our strategic priorities and milestones in the planned timeframes.

As a lead-in to the period covered by this SPE, we completed a Capability Review focused on optimising our workforce, while meeting budget expectations and Government priorities. This reduced our operating cost by \$1.2 million per annum from 1 July 2024, which will be returned to Government, along with other savings from Vote Education.

During the 2024–25 financial year, our focus will be on maintaining our workforce capability, payroll delivery, and financial stability within our existing funding, while we plan and prepare for future-proofing our core payroll platform.

We will use our balance sheet to fund 'no regrets' investment in payroll upgrades, until our cash balance reaches the Board's minimum threshold, or alternatively a Government decision is made to invest in payroll system upgrade or replacement. We'll do this by ensuring our decision-making is sequenced appropriately so we have no redundant effort, and ensuring the spend and investment we do make is agnostic to the options we have for the future of our core platform.

We will do some initial work with the Ministry of Education to clearly document specific school payroll requirements, and to record business rules that are unique to the payroll of schools and kura. We will then assess how these align with the 'out of the box' functionality available using modern versions of our current core payroll system and potential alternatives.



Naomi Ferguson QSO

Board Chair
Education Payroll Limited

2. OUR COMPANY

Education Payroll was established in October 2014 to enable significant improvement in education sector payroll services in response to the lessons learned from the implementation of Novopay.

Our purpose and role

Our purpose is to deliver an accurate, timely, and secure payroll service to schools and kura.

Our purpose and role are more fully detailed in our company constitution. In summary, we:

- a) Work with the Ministry of Education (the Ministry) to provide a reliable and effective schools payroll service that implements Government policy, enables the Ministry to meet its payroll obligations, and maximises value to Shareholders.
- b) Act as responsible stewards of the systems, processes, data, information, technology, and controls that are involved in providing the schools payroll service.
- c) Comply with all relevant legislation regarding pay, calculations, information, and deductions.

Our strategic priorities

Our strategic intentions, priorities, and objectives are more fully detailed in our *Statement of Intent 2024–2028*. Our strategic priorities for 2024–25 reflect the most pressing challenges facing us in the short-medium term.

First and foremost our core focus is on ensuring the payroll is delivered correctly. To support this, we have the following strategic priorities:

- **Customer confidence** – continue to resolve historic and new issues that compromise accuracy, timeliness, or customer experience.
- **Payroll platform** – explore a range of ‘no regrets’ investment options and work with the Ministry to identify the best way forward.
- **Business rules** – identify and catalogue standard payroll rules and services vs. education sector-specific custom rules and services.
- **Capability** – make sure we are match fit to maintain customer confidence and ready to deliver what’s coming down the pipeline.

These will be addressed via a series of strategic workstreams, which are set out later in this document, together with the associated key milestones for the 2024–25 year.

Our operational priorities

The school payroll has many unique requirements, including that:

- Most pay calculations are made using 365 days in the year, rather than weekly or fortnightly (which is standard with most payrolls).
- Leave, holiday pay, sick leave, ACC, and allowances all require customised calculations to ensure correct payments.
- Employees frequently hold multiple jobs, each with differing rates and requirements, and there are multiple funding sources that must be correctly allocated.

Our operational priorities are to deliver the payroll, and to deliver 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.

Risk management and assurance

We identify and manage material risks across strategic, operational, financial, cybersecurity, privacy, and technology environments.

We regularly review and evaluate current and emerging risks, while ensuring the organisation is taking appropriate actions to mitigate these.

We have an enterprise-wide risk management framework, based on ISO 31000 standards. Our Audit and Risk Committee monitors key risks, and any issues raised via independent assurance.

Measuring our performance

Strategic performance

Our strategic objectives will be delivered via workstreams that are managed using our Agile Programme Increment (PI) process.

Each PI has six fortnightly sprints that are tracked to provide early indications of any new risks or departures from the expected delivery path.

We will assess our performance by reporting against targets and milestones for these workstreams in our Quarterly and Annual Reports.

Operational performance

Our operational objectives will be monitored using the Performance Measurement Framework in our Master Services Agreement (MSA) with the Ministry.

Calls and queries to our school account teams are our most immediate flag about any operational performance issues. We also monitor around 100 performance metrics daily to improve our awareness of longer-term trends and issues.

3. SERVICE PERFORMANCE EXPECTATIONS

Our strategic performance

Our strategic performance in the current financial year will be measured against the milestones set out in the tables below. Our achievement of these milestones will be reported in our Quarterly and 2024–2025 Annual Reports.

Payroll delivery

STRATEGIC OBJECTIVE: To deliver an accurate, timely, and secure payroll service to schools.

#	Payroll delivery strategic workstreams	2024–25 milestones
PD1	Timely implementation of changes to employment agreements	Required changes completed within key performance indicators (KPIs)
PD2	Explore what kura need, and identify pragmatic and affordable opportunities	Plan/s for kura agreed with Ministry

Business performance

STRATEGIC OBJECTIVE: To be, and continue to be, the best available option for payroll delivery to schools.

#	Business performance strategic workstreams	2024–25 milestones
BP1	Improve definition of KPIs with the Ministry	Improved KPIs agreed with Ministry for implementation in 2025–26

Customer confidence

STRATEGIC OBJECTIVE: To ensure schools and kura are confident their people are paid accurately and on time.

We achieve this objective through our daily ways of working – delivering the pay accurately and on time and putting right any issues as they arise.

#	Customer confidence strategic workstreams	2024–25 milestones
CC1	Surveys and findings, including quarterly surveys	Surveys completed and findings reported

Workforce capability

STRATEGIC OBJECTIVE: To build, sustain and maintain a workforce who can deliver an accurate, timely, and secure payroll service to schools and support the education sector-specific custom elements of our payroll delivery, both in terms of the technology and working with the school administrators.

#	Workforce capability strategic workstreams	2024–25 milestones
WC1	Review capability to align organisation strategy, culture, and resources	Capability review completed and implemented
WC2	Develop and implement a Workforce Strategy (key to KPI achievement)	Workforce Strategy developed and implementation commenced
WC3	Develop and implement staff retention and succession plan	Retention and succession plan implemented

Financial sustainability

STRATEGIC OBJECTIVE: To live within our approved funding envelope until decisions are taken about investment in core payroll system upgrade or replacement.

#	Financial sustainability strategic workstreams	2024–25 milestones
FS1	Identify a programme of ‘no regrets’ investment to sustain and de-risk our environments, so we are well placed to implement any changes agreed as part of the business case process	No regrets investment plan prepared and agreed with the Ministry

Future-proof technology

STRATEGIC OBJECTIVE: To future-proof our core payroll system by moving to a ‘vanilla core’ and then upgrading or replacing the core system.

#	Future-proof technology strategic workstreams	2024–25 milestones
FP1	Document high-level business requirements to understand which are ‘generic payroll’ and which are ‘education sector specific’	Business requirements documented
FP2	Confirm that our understanding of Ministry requirements and associated business rules is complete and accurate	Requirements and rules agreed with Ministry, any remaining issues identified
FP3	Complete a prototype that tests our ability to build engines or extensions that hold customisation <i>outside</i> the core	Prototype completed
FP4	Determine the optimum path to resolve the issue of custom code embedded in the core system, and then implement that path	Analysis and business case completed to confirm feasibility of building custom engines outside the core
FP8	Deploy 2-factor authentication for our EdPay front end	2-factor authentication deployed

Our operational performance

Our operational performance will be measured against a set of KPIs that form part of our MSA with the Ministry, together with other measures that are part of our Performance Framework. The following tables set out the targets for each KPI this financial year. Our achievement of the KPI targets will be reported in our Quarterly and 2024–25 Annual Reports.

CORE PAYROLL SERVICES

Our core services relate to providing accurate and timely payments and entitlements to school employees. Every fortnight we receive approximately 9,500 new payroll tickets and pay 99,000 employees.

Accuracy

Year ended 30 June Performance measure	Description	Actual 2022-23	Estimated 2023-24	Standard 2024-25
Payroll payments are accurately calculated	Employees with their pay processed accurately, excluding all pay and non-pay impacting tickets not processed before the end of the pay period	98.64%	99.25%	99.50%
Payroll instructions submitted 'right first time' by schools (1)	Payroll instructions received from schools that can be processed first time without being returned for further information	83.83%	84.24%	80.00%

1. The 'right first time' measure is a leading indicator of payroll accuracy. As this measure increases, additional focus can be given to simplify and process more complex transactions quickly and more efficiently.

Timeliness

Year ended 30 June Performance measure	Description	Actual 2022-23	Estimated 2023-24	Standard 2024-25
Pay timeliness, as indicated by the time on the due date that employees are paid	Employees paid, excluding the employees receiving out-of-cycle payments and all pay impacting tickets not processed before the end of the pay period	99.09%	99.62%	99.50%

Quality

Year ended 30 June Performance measure	Description	Actual 2022-23	Estimated 2023-24	Standard 2024-25
Cost of schools' payroll service per school employee paid	Our services deliver gains and cost benefits for the education sector	\$313	\$341	\$250 (2)
Customer satisfaction (3)	Survey respondents satisfied with the overall quality of the service delivery and support received from Education Payroll	78.13%	84.64%	80.00%
Customer effort	Customer effort score (0 = most effort, 10 = least effort)	7.4	7.7	8.5

2. The target for Payroll cost per employee paid was set some years ago as part of the now-closed Education Payroll Development Programme. These measures need to be revisited with the Ministry to ensure the calculation method for target and actual are the same as each other.
3. We receive feedback from schools and suggestions for improvements and enhancements and implement these where practicable.

Website availability

Year ended 30 June Performance measure	Description	Actual 2022–23	Estimated 2023–24	Standard 2024–25
Service website availability (4)	Availability of the website to school payroll service users for obtaining and submitting information	99.77%	99.93%	98.50%

4. The availability measure is 7am to 7pm weekdays and 7am to 6pm weekends including school holidays, excluding scheduled outages.

ACC ADMINISTRATION

We processed approximately 2,300 ACC claims on behalf of schools in 2022–23.

Accuracy

Year ended 30 June Performance measure	Description	Actual 2022–23	Estimated 2023–24	Standard 2024–25
Notification of errors related to ACC claims	Transactions received and completed that did not result in notification of errors, or an overpayment related to the incorrect processing of an ACC claim	98.46%	98.35%	99.50%

OVERPAYMENT MANAGEMENT

Providing notification, recovery, and administration of payroll-related overpayments.

Accuracy

Year ended 30 June Performance measure	Description	Actual 2022–23	Estimated 2023–24	Standard 2024–25
New overpayments created (5)	Reductions/(increase) in new overpayments created compared with the previous year	(52.91%)	(5.69%)	15.00%
Net overpayment debt is less than specified level (6) (7)	The balance of net overpayment debt is less than the standard level	\$3.6 M	\$3.7 M	\$2.0 M

5. 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.
6. Net overpayment debt is a new measure that started in 2022–23. As Education Payroll does not have the levers to influence this measure, we will need to work with the Ministry and boards of trustees on a 'go to green' plan for this measure. Significant effort will be required to bring the debt balance within the target.
7. For context, overpayments represent 0.1% of total payments by number, and 0.001% of total payments by value.

Timeliness

Year ended 30 June Performance measure	Description	Actual 2022-23	Estimated 2023-24	Standard 2024-25
Overpayment notification made on time	Employees receive their first overpayment notification letter within 15 working days of the overpayment being discovered (8) (9)	89.39%	97.31%	99.50%

8. Performance was significantly disrupted last year. The annual embargo on debt recovery over Christmas/New Year was extended to provide some relief after the weather events of early 2023, and remained in place for a prolonged period in the three regions hit hardest by Cyclone Gabrielle and its aftermath.
9. Discovery is either the date of notification from the school/Ministry/third party, or the date we discover the overpayment.

SUSTAINABLE & SECURE ORGANISATION

These measures reflect the use of smart, secure, and sustainable practices.

Year ended 30 June Performance measure	Actual 2022-23	Estimated 2023-24	Standard 2024-25
The number of future-proofing or sustainability related issues identified as priority 'high' or above in the annual audit (10)	Nil	Nil	Nil
Number of preventable cybersecurity-critical incidents	0	0	0
Recommendations from the National Cyber Security Centre relating to cybersecurity-critical incidents that have been implemented	100%	100%	100%

10. The number of future-proofing or sustainability related issues is a new measure that started in 2022-23.

SALARY ASSESSMENT

We received approximately 5,500 requests for assessments in 2023-24.

New, overseas trained, or returning teachers in the State sector can apply to have their annual base salary assessed. This forms-based process requires verified supporting evidence and involvement of school administrators and principals before the application is made, with a 15 working day turnaround target for correct and complete applications.

Accuracy

Year ended 30 June Performance measure	Description	Actual 2022-23	Estimated 2023-24	Standard 2024-25
Notification of errors related to salary assessment determinations	Salary assessments do not result in overpayments	99.85%	99.60%	99.50%

Timeliness

Year ended 30 June Performance measure	Description	Actual 2022–23	Estimated 2023–24	Standard 2024–25
Salary assessments processed on time	Assessments processed within 15 working days from date of receipt	96.25%	76.19%	100%

RESPONSIVE SERVICE

Promptly delivering newly agreed entitlements for school employees.

The schools' payroll is covered by 14 collective agreements, 15 individual employment agreements, and multiple allowances. Allowances, entitlements, pay grades, and steps can all change when agreements are settled, and we make the related system changes to ensure everyone gets what they are entitled to receive.

Year ended 30 June Performance measure	Actual 2022–23	Estimated 2023–24	Standard 2024–25
Implement employment agreements within three pay periods of receiving full business requirements from the Ministry (11)	100%	n/a	100%

11. During 2023–24, 12 of the 14 collective agreements had pay-impacting changes or variations, which is much higher than the usual three to four changes per year. Because this was an exceptional amount of change for everyone involved, we agreed with the Ministry and unions to prioritise and stage the rollout of changes across more than the standard three pay periods, and we achieved the agreed timelines. The normal target and actual are therefore not applicable (n/a) for the 2023–24 year. This should return to normal in 2024–25.

STAFF ENGAGEMENT

Our staff are committed and engaged, with a positive employee experience.

Year ended 30 June Performance measure	Actual 2022–23	Estimated 2023–24	Standard 2024–25
Staff engagement survey – Kōrero Mai – employee experience (average score out of 10)	7.7	7.8	7.8

Prospective financial statements

4. PROSPECTIVE FINANCIAL STATEMENTS

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

The following prospective 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 prospective 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 controls that is designed to provide reasonable assurance as to the integrity and reliability of Education Payroll's performance and financial reporting.

These prospective financial statements are issued as at 30 June 2024, and are based on information available at that time.



Naomi Ferguson QSO

Board 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 – 2024–25

The prospective financial statements are based on a forecast year-end position for 2023–24 of a surplus of \$1.763 million.

The 2024–25 budget assumes a reduction in contract revenue from the Ministry of \$1.2 million as Education Payroll's contribution to targeted efficiency savings across Vote Education.

At the same time, Education Payroll is forecasting increases in costs, including labour market pressures, increases in inflation, additional cybersecurity requirements, and priority work related to the maintenance and development of the core payroll system. Education Payroll has identified savings, where possible, to offset these pressures.

Education Payroll is a Public Benefit Entity and does not make a profit.

Within this Budget, the following assumptions have been made:

- › Reduction in revenue.
- › The loan of \$9.225 million was repaid on 28 June 2024.
- › Inflation has been applied at 3% for salaries for 2024–25.
- › Consumer Price Index (CPI) of 4% has been applied for most other expense categories.
- › Depreciation is based on intangible assets having up to ten-year useful lives.

2024–25 includes an increase in accommodation expenses to reflect our return to normal accommodation arrangements for the full 2024–25 year.

Capital budgets

The 2024–25 capital budget of \$3.6 million includes \$0.5 million for technology infrastructure improvements and business as usual capital, and \$3.1 million for other developments.

Our resources will be carefully allocated to maximise value to Shareholders by making 'no regrets' investments in the development of EdPay and our core technology infrastructure. This plan does not include additional funding required for payroll upgrade or replacement.

Prospective statement of comprehensive revenue & expenses

for the years ended 30 June 2024 to 2025

Year ended 30 June	Notes	Budget \$000 2023–24	Forecast \$000 2023–24	Budget \$000 2024–25
Revenue from exchange transactions				
Sales of services to government	(1)	38,000	35,062	35,369
Total operating revenue		38,000	35,062	35,369
Expenses				
Personnel expenses		15,911	17,060	18,103
Third-party support		1,203	2,330	2,320
Corporate expenses		744	563	601
Auditor's remuneration		95	96	99
Directors' fees		139	139	140
Travel & entertainment		26	12	17
Accommodation & facilities		762	792	867
ICT costs		8,092	7,356	8,032
Depreciation & amortisation	(6)	6,002	5,396	5,646
Total operating expenses		32,974	33,744	35,825
Other Comprehensive Income				
Loss on Asset Disposal	(5)	–	131	–
Total Other Comprehensive Income / (deficit)		–	(131)	–
Finance income				
Interest received		720	1,006	665
Finance expense				
Interest expense		(430)	(430)	–
Total finance income / (costs)		290	576	665
Total surplus / (deficit) for the year		5,316	1,763	209
Total comprehensive income		5,316	1,763	209

These financial statements should be read with the accompanying notes.

Prospective statement of financial position

as at 30 June 2024 to 2025

As at 30 June	Notes	Budget \$000 2023-24	Forecast \$000 2023-24	Budget \$000 2024-25
Current assets				
Cash & cash equivalents	(2)	8,271	12,855	16,111
Receivables from exchange transactions	(3)	1,610	3	3
Prepayments		2,594	1,542	1,542
Total current assets		12,475	14,400	17,656
Non-current assets				
Property, plant & equipment	(4)	2,211	1,287	1,028
Intangibles	(7), (14)	36,916	29,122	27,343
Work in progress	(8)	636	4,680	4,680
Total non-current assets		39,763	35,089	33,051
Total assets		52,238	49,489	50,707
<i>Represented by:</i>				
Current liabilities				
Accruals & payables	(9)	4,479	2,014	2,014
Employee entitlements	(10)	500	997	997
Income in advance		-	3,075	4,084
Total current liabilities		4,979	6,086	7,095
Non-current liabilities				
Borrowings	(12)	-	-	-
Total non-current liabilities		-	-	-
Net assets		47,259	43,403	43,612
Shareholders' funds				
Capital contributions	(11)	25,520	25,520	25,520
Retained earnings		21,739	17,883	18,092
Total shareholders' funds		47,259	43,403	43,612

These financial statements should be read with the accompanying notes.

Prospective statement of cash flows

for the years ended 30 June 2024 to 2025

Year ended 30 June	Notes	Budget \$000 2023–24	Forecast \$000 2023–24	Budget \$000 2024–25
Cash flows from operating activities				
Receipts from sales of services for government		38,000	38,137	36,379
Receipts from interest received		720	1,006	665
Cash inflows from operating activities		38,720	39,143	37,044
Payments to suppliers		(11,060)	(11,288)	(12,077)
Payments to employees		(15,911)	(17,060)	(18,103)
Cash outflows from operating activities		(26,971)	(28,348)	(30,180)
Net cash inflows from operating activities		11,749	10,795	6,864
Cash flows from investing activities				
<i>Payments:</i>				
Investment in tangible & intangible assets		(6,500)	(2,496)	(3,608)
Cash outflows from investing activities		(6,500)	(2,496)	(3,608)
Net cash outflows from investing activities		(6,500)	(2,496)	(3,608)
Cash flows from financing activities				
<i>Payments:</i>				
Prepayments of borrowings		(9,225)	(9,225)	–
Interest on borrowings		(430)	(430)	–
Cash outflows from financing activities		(9,655)	(9,655)	–
Net cash inflows / (outflows) from financing activities		(9,655)	(9,655)	–
Net increase / (decrease) in cash & cash equivalents		(4,406)	(1,356)	3,256
Cash & cash equivalents at beginning of year	(2)	12,677	14,211	12,855
Cash & cash equivalents at end of year		8,271	12,855	16,111
<i>Represented by:</i>				
Cash at bank		8,271	12,855	16,111

These financial statements should be read with the accompanying notes.

Prospective statement of changes in equity

for the years ended 30 June 2024 to 2025

	Budget \$000 2023-24	Forecast \$000 2023-24	Budget \$000 2024-25
Opening balance	41,943	41,640	43,403
<i>Movements:</i>			
Capital contributions	–	–	–
Total comprehensive income for year	5,316	1,763	209
Balance as at 30 June	47,259	43,403	43,612

EPL capital expenditure

for the years ended 30 June 2024 to 2025

	Budget \$000 2023-24	Forecast \$000 2023-24	Budget \$000 2024-25
Plant, property & equipment	650	410	470
Intangible assets	5,850	2,086	3,138
Total	6,500	2,496	3,608

These financial statements should be read with the accompanying notes.

5. NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Education Payroll is a Crown entity as defined by the Crown Entities Act 2004 and is listed in Schedule 4A of the Public Finance Act 1989.

The company resides in New Zealand and operates under the Companies Act 1993.

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

Basis of preparation

The prospective financial statements disclosed are for the period 1 July 2024 to 30 June 2025.

The prospective 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 prospective 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). They comply with *New Zealand Reporting Standard No. 42 – Prospective Financial Statements*.

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

Budget figures

Education Payroll's *Statement of Performance Expectations 2024–25* budget was adopted by the Board on 18 June 2024 and published on 30 June 2024.

Basis of measurement

The prospective financial statements have been prepared on a historic cost basis except where specifically stated in these accounting policies.

Presentation currency

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

Changes in significant accounting policy

Education Payroll has adopted *PBE IPSAS 41 Financial Instruments* in the current financial period. This standard replaces parts of *PBE IPSAS 29 Financial Instruments: Recognition and Measurement*. The standard had minor impacts on the classification and presentation of financial instruments. The standard did not have a material impact on the financial reporting of Education Payroll.

Education Payroll has adopted *PBE Financial Reporting Standard 48: Service Performance Reporting* which establishes requirements for PBEs to select and present service performance information.

There have been no other 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 prospective financial statements, as set out below, have been applied consistently in preparing these prospective financial statements.

(1) Revenue from exchange transactions

Payroll services provided to the Ministry 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.
- The amount can be measured reliably, and it is probable that the service potential associated with the transaction will flow.

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 remeasurement of monetary items at year-end exchange rates, are recognised in surplus or deficit.

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 Education Payroll is the lessee are recognised as assets and liabilities in the 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 leases

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

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

Financial instruments presentation

Financial assets and financial liabilities are recognised when Education Payroll becomes a party to the contractual provisions of the financial instrument. Financial assets are classified, at initial recognition and subsequently measured at amortised cost, fair value, through other comprehensive income (OCI) and fair value through surplus or deficit.

Education Payroll derecognises a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets, when the rights to receive cash flows from the asset have expired or are waived, or Education Payroll has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party, and either:

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

(2) 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.

(3) 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 Education Payroll 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 Statement of Comprehensive Revenue and Expenses.

Financial liabilities

Education Payroll's financial liabilities include trade and other creditors, and borrowings that pertain to Education Payroll's Crown loan.

(4) Property, plant, and equipment

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

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

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

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

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

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

(5) Gains and losses on 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.

(6) 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
- ICT equipment 2 to 10 years
- Leasehold improvements 3 to 6 years
- Furniture & fittings 3 to 12 years

(7) 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 rates are used in the calculation of amortisation:

- Software licenses 2 to 14 years
- Intangibles up to 14 years

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing Education Payroll with the right to access the cloud provider's application software over the contract period. As such, Education Payroll does not receive a software intangible asset at the contract commencement date.

The following outlines the accounting treatment for costs incurred in relation to SaaS arrangements:

Recognised as an operating expense over the term of the service contracts.	<ul style="list-style-type: none"> ➤ Fee for use of application software. ➤ Customisation costs.
Recognised as an operating expense as the service is received.	<ul style="list-style-type: none"> ➤ Configuration costs. ➤ Data conversion and migration costs. ➤ Testing costs. ➤ Training costs.

Costs incurred for the development of software code are recognised as intangible software assets when that code enhances or modifies, or creates additional capability to existing on-premise systems, and meets the definition of, and recognition criteria for, an intangible asset.

(8) Work in progress

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

(9) Accruals and payables

Creditors and other payables are non-interest bearing and are normally settled within ten days, therefore the carrying values of creditors and other payables approximate their fair value.

(10) Employment entitlements

Employment entitlements that Education Payroll expects to be settled within 12 months of balance date are measured at nominal value of 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 that Education Payroll expects to be settled within 12 months.

(11) Equity

Equity is the shareholders' interest in Education Payroll, measured as the difference between total assets and total liabilities.

Goods and services tax

All items in the prospective financial statements are stated exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis.

Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

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

The net GST paid to, or received from, Inland Revenue, including the GST relating to investing and financing activities, is classified as operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Education Payroll is a public purpose Crown-controlled company in accordance with the Income Tax Act 2007 and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

Cost allocation

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

(12) 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.

Reportable outputs

In compliance with the Crown Entities Act (2004) S149E (1) (c), Education Payroll confirms that it did not supply any class of outputs in the financial year that is not a reportable class of outputs.

Critical accounting estimates and assumptions

In preparing these prospective financial statements, estimates and assumptions have been made about the future, based on historical experience and other factors that are considered to be relevant to the forecast amounts of revenues, expenses, assets, and liabilities at the end of the reporting period.

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

- Funding for payroll services delivered by Education Payroll continues through a MSA with the Ministry.
- Education Payroll is a going concern and no alternative arrangements have been proposed for the delivery of payroll services to the education sector at this time.
- Roll-out of the EdPay system and capture of the financial benefits outlined in the Detailed Business Case continues.

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.

(13) Estimating useful lives and residual values of property, plant, and equipment

Each year the useful lives and residual values of property, plant, and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant, and equipment requires a number of factors to be considered, such as the physical condition of the asset, expected period of use of the asset by Education Payroll, and expected disposal proceeds from the write off of these assets.

An incorrect estimate of the useful life or residual value affects the depreciation expense recognised in the surplus or deficit and the carrying amount of the asset in the Statement of Financial Position.

Education Payroll minimises the risk of this estimation uncertainty by:

- Physical inspection of assets.
- Asset replacement programmes.

(14) Intangible assets recognition and measurements

Values are inherently subjective and require the use of judgement.

Intangible assets that qualify for recognition are initially 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.

During the year, directors assessed the appropriateness of the current useful lives of Education Payroll's intangible assets in response to an audit finding. Previously, the finite life for these assets was based on the end date of the MSA with the Ministry, being June 2027.

Due to the specialised nature of assets, the lack of available external comparators, and that no alternative arrangements have been proposed for the delivery of payroll services to the education sector, Education Payroll has acted on the audit finding by adjusting the useful life of internally developed assets to a maximum of ten years.

Developed software costs include external costs, wages and overheads that are directly attributable to the software development. Software and licenses received through capital injection are initially recognised at fair value at transfer date on the basis that it is probable that they will generate future economic benefits for Education Payroll. Fair value is determined using costing information available, taking into consideration relevant indicators of impairment.

Provisions

Specific provisions for historic liabilities are 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

There are no standards and interpretations that are issued but not yet effective that are expected to have a material impact on Education Payroll's financial position, performance, and/or disclosures.



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