

Annual Report 2023–2024

Rārangi Utu ā-Mātauranga
EDUCATION PAYROLL



CONTENTS

1. Chair's foreword	2	8. Our people	17
2. Our strategic framework	3	9. Statement of corporate governance	18
3. Our year in review	4	10. Statement of responsibility	21
4. Our business	6	11. Independent auditor's report	22
5. Our performance	8	12. Financial statements	27
6. Our customers	14	13. Notes to the financial statements	31
7. Our technology and resilience	15		

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.

Annual Report

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 financial and operational performance of Education Payroll Limited for the period 1 July 2023 to 30 June 2024, to meet its statutory requirements pursuant to the Crown Entities Act 2004.

This document should be read in conjunction with our *Statement of Intent 2021–2025* and *Statement of Performance Expectations 2023–24*.

Published in November 2024

Education Payroll Limited

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1. CHAIR'S FOREWORD

This Annual Report sets out our strategic and operational performance and our financial statements for the 2023–24 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 2021–2025*.

Education Payroll's purpose is to deliver an accurate, timely and secure payroll service to schools and kura. We ensure teachers and support staff in schools and kura are paid the right amount on time every fortnight. That's 100,000 teachers, principals and support staff in 2,500 schools, paid a total of \$7.4 billion each year.

As a result of the now-completed Education Payroll Development Programme, we are at or near all our operational performance targets. Over time, the team at Education Payroll has made real progress with improving customer satisfaction and is now on average 80% in the school surveys we run each term.

Over the past 18 months, we've been working alongside the Ministry of Education to implement changes to 14 collective agreements and variations to a number of those agreements. It has been a period of significant change for the sector and for the code that lives inside our payroll system and calculates pay.

Our current payroll system is ageing but is still reliable and stable. We have demonstrated through this round of changes that we can successfully implement legislative or employment agreement changes by building on the complex web of custom code that forms the current school payroll.

Achieving compliance with the Holidays Act 2003 has been a challenge for many sectors, including education. We are currently working on seven Holidays Act improvement initiatives identified by the Ministry.

The Board is working well with Education Payroll's relatively new leadership team and is confident that the team is building the right capability to perform well, while living within the current budget.

We are working through a series of decisions to fund 'no regrets' investment in payroll upgrades, within available funding. The goal is to sequence these decisions to limit redundant effort and ensure the spend and investment we do make doesn't impact our options for the future of our core platform.

We would like to call out the great work school administrators do. They are the unsung heroes of payroll; the people who ensure we get the information we need to run the payroll. We couldn't operate without them.

Finally, we'd like to thank our staff for the huge effort involved in delivering an exceptionally large number of changes to employment agreements throughout this year, while at the same time continuing to deliver the fortnightly payroll to schools and kura.

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



Naomi Ferguson QSO

Board Chair
Education Payroll Limited



Liz Maguire

Chair of Audit and Risk Committee
Education Payroll Limited

2. OUR STRATEGIC FRAMEWORK

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

Our purpose

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

Our vision

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

Our values



Our people

We work as a people-focused, flexible organisation and we support our staff to realise their potential. Our staff have told us that being able to collaborate face-to-face with colleagues drives their performance, and our new office space has reset the way we work. Our organisational capability review allowed us to consider how we can work differently, and this is now reflected in our strategy and work programme. Our revised leadership framework sets expectations for our people, encouraging them to lead themselves, lead their teams and lead Education Payroll.

Our goals

Better every day

- › Deliver a reliable, accurate and increasingly effective and efficient payroll service to schools and kura.

Future-proof our technology

- › Provide secure, supported, sustainable and fit-for-purpose software and platforms.

Add value in payroll and education sectors

- › Work with the Ministry of Education (the Ministry) and others to achieve the Government's objectives for education and payroll and take advantage of opportunities to add value.

Our future success

Our payroll service aims to reduce administrative and manual effort for schools and our staff, increase our delivery efficiency and enable us to focus on innovation and sustainability.

We are working to realise the financial and non-financial benefits outlined in the business case for the Education Payroll Development Programme, which has now closed.

We want to build customer-focused, fit-for-purpose solutions and services that position us well for the future.

Our services are set up to enable us to add value across the payroll and education sectors.

3. OUR YEAR IN REVIEW

Our major focus this year has been implementing an unusually large number of new employment agreements, variations to existing employment agreements and pay equity settlements.

Our year

Overall, there are 14 collective agreements and 15 individual employment agreements that cover the 100,000 teachers, principals and support staff we pay each fortnight.

This year our teams implemented seven new collective agreements and variations to five existing employment agreements.

This was three to four times the usual rate of change to employment agreements and affected around half of all school and kura employees.

To ensure school employees would continue to be paid accurately and on time while changes were made, and to avoid confusion with many changes being made in a pay period, we agreed with the Ministry to limit implementation of changes to one per fortnight. This meant that for most collectives, the overall implementation period exceeded our standard three pay period target timeframe.

Most of the employment agreement changes took on average two-three months to implement. Overall, we worked on these changes for 10 months this year.

Despite the significant focus on employment agreement changes, we also completed a number of remediation and improvement tasks and lifted our cybersecurity capability and resilience.

We also worked jointly with the Ministry to enable school staff to apply for salary assessments online.

After the online portal was launched, we experienced challenges that negatively impacted teachers and principals.

We will continue to work with the Ministry to resolve challenges associated with the salary assessment process during 2024–25.

In September, we moved into our new permanent office space. Our staff had been working remotely or from temporary office spaces, after our previous building suffered major flood damage in December 2022.

Our employee experience survey shows that staff value collaboration and being with their colleagues and this positively contributes to their job satisfaction and performance.

We also completed an organisational capability review for aligning our structure and roles more closely with our strategic direction as set out in our *Statement of Intent 2021–2025*.

Staff consultation on the review showed there was general agreement with proposed changes to how we work and the culture we aim to build in the coming years.

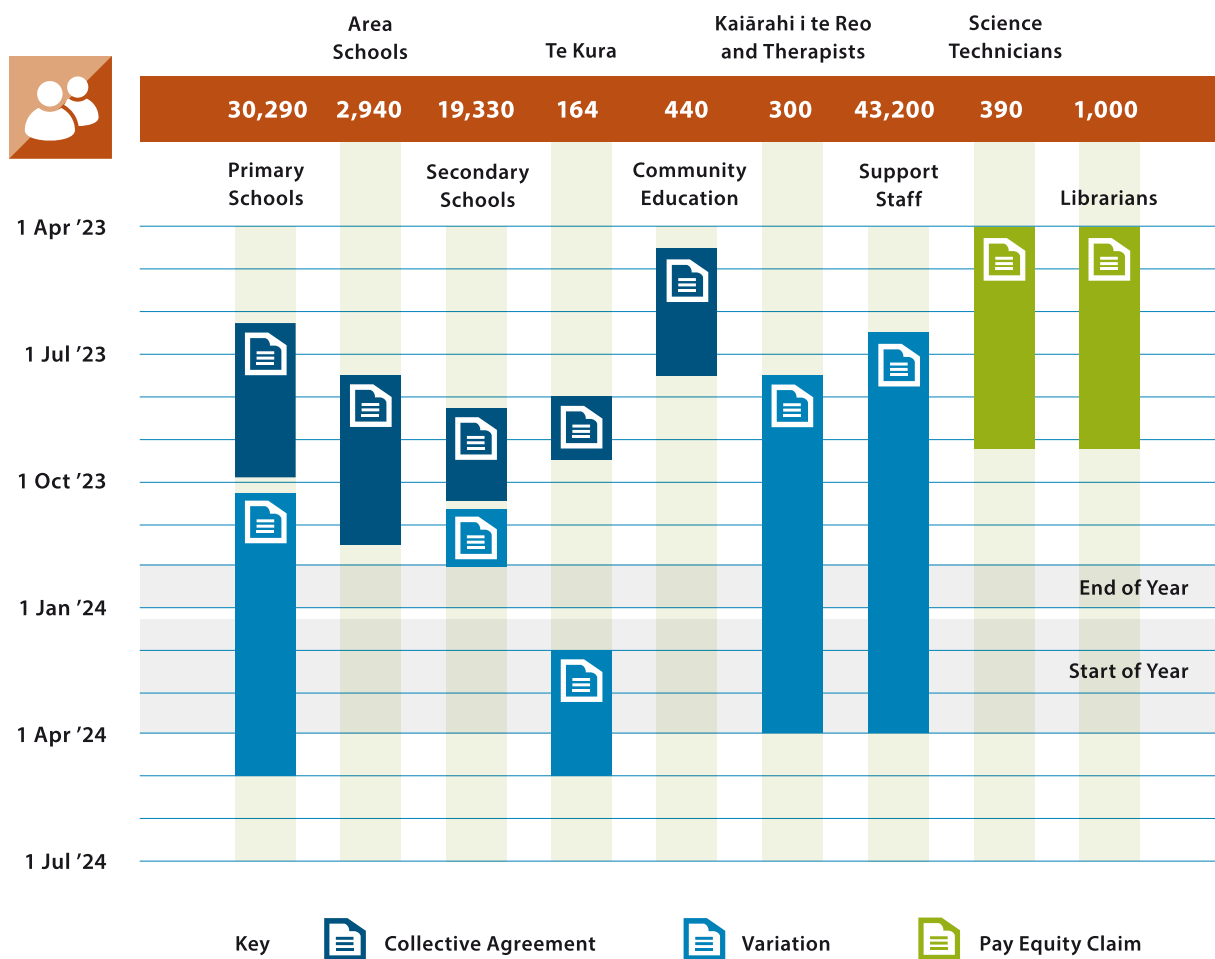
We are now at or near all our operational performance targets and, with the large volume of changes now behind us, we are ready to start our new performance year in good shape.

Employment agreements

The following chart is an overview of the employment agreements and pay equity settlements we implemented throughout the year for different groups of school employees.



Employment agreement, variations and pay equity implementations



4. OUR BUSINESS



We deliver the payroll to New Zealand schools and kura each fortnight.

We also:



Provide one-on-one phone advice and guidance to school administrators and principals.



Assess teachers' qualifications and experience to set their correct salaries.



Process and administer ACC claims.



Administer third-party payments, such as Accident Compensation Corporation (ACC), KiwiSaver, and student loan payments.



Manage overpayments.

By the numbers



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

2,500 schools

6,800 school payroll administrators

100,000 teachers, principals, and support staff paid each fortnight, on average

107,000 jobs paid per pay period, on average

\$283 million paid to school staff per pay period, on average

\$7.4 billion paid to school staff each year

2.6 million payments made each year

9,000 new payroll tickets received from schools each fortnight, on average

5,200 salary assessment requests processed each year

2,200 ACC claim requests processed each year

14 collective agreements and

15 corresponding individual employment agreements in place

121,000 phone calls to our teams (inbound and outbound) each year

2.1 million transactions processed in EdPay each year



99.30%
payroll accuracy



99.64%
of payments on time



81.44%
customer satisfaction
overall (15.85 percent
neutral, 2.71 percent
dissatisfied)



99.95%
system availability
(excluding scheduled
outages)

5. OUR PERFORMANCE

Our operational performance is measured against a set of Key Performance Indicators (KPIs) that form part of our Master Services Agreement (MSA) with the Ministry, together with other measures that are part of our Performance Measurement Framework (PMF).

CORE PAYROLL SERVICES

Our core services relate to providing accurate and timely payments and entitlements to school employees. Every fortnight we receive approximately 9,000 new payroll tickets and pay 100,000 employees.

The school payroll has many unique requirements. Some 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 we make payments correctly.

If employees have jobs at more than one school or more than one job at a school, their information is combined so the employee receives one payslip that includes all of their jobs, taxed on the same tax code. Schools only receive information that relates to the work the employee does at their school.

Our focus is on delivering 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.

Accuracy

Year ended 30 June Performance measure	Description	Actual 2022–23	Standard 2023–24	Actual 2023–24
Payroll payments are accurately calculated	Employees paid, excluding requests to correct payments to employees, and pay impacting tickets not processed in the current fortnight	99.51%	99.50%	99.75%
Updated measure for 'payroll payments are accurately calculated'	New performance measure agreed with the Ministry in August 2022. Employees have their pay processed accurately, excluding all pay and non-pay impacting tickets not processed before the end of the pay period	98.64%	99.50%	99.30%
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	83.83%	80.00%	84.40%

- The pay accuracy performance measures were agreed with the Ministry in 2017. In August 2022, with agreement from the Ministry, the measure was updated to better reflect business operations.
- The 'right first time' measure is a leading indicator of payroll accuracy. There is a significant difference between schools submitting 84.4% of their payroll instructions 'right first time' and Education Payroll processing 99.3% of employees pay accurately. As the 'right first time' measure increases, Education Payroll can invest more time in simplifying and processing more complex transactions quickly and more efficiently.

Timeliness

Year ended 30 June Performance measure	Description	Actual 2022-23	Standard 2023-24	Actual 2023-24
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%
Pay timeliness, as indicated by the time on the due date that employees are paid	New measure agreed with the Ministry in August 2022. 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%	99.50%	99.64%
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	99.83%	99.50%	99.89%

These measures were agreed with the Ministry in 2017. In August 2022, with the agreement of the Ministry, these measures were updated to better reflect business operations.

Quality

Year ended 30 June Performance measure	Description	Actual 2022-23	Standard 2023-24	Actual 2023-24
Cost of school payroll service per school employee paid	Our services delivery efficiency gains and benefits for the education sector	\$313	\$250	\$344
Customer satisfaction	Survey respondents satisfied with the overall quality of the service delivery and support received from Education Payroll	78.13%	75.00%	81.44%
Customer effort	Customer effort score (0 = most effort, 10 = least effort)	7.4	8.5	7.7

- The \$250 standard has not been adjusted for inflation since its inception in 2016. Taking the Consumers Price Index (CPI) into account from 2016 Quarter Four (when Education Payroll Development Programme was effective) to 2024 Quarter Two, the \$250 would be inflation-adjusted to \$321. This will be taken into consideration at the next review of the standards.
- The year-on-year increase from \$313 to \$344 is mainly driven by an increase in personnel cost, third-party support cost and assets depreciation and amortisation. Interest income was reallocated to reflect under Revenue in 2024, previously it was reflected under Non-operating items.
- 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	Standard 2023–24	Actual 2023–24
Service website availability	Availability of the website to school payroll service users for obtaining and submitting information	99.77%	97.50%	99.95%

- The availability measure is 7am to 7pm weekdays and 7am to 6pm weekends, excluding scheduled outages. We include both the EdPay application and the EdPay website in this measure.

OVERPAYMENT MANAGEMENT

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

Accuracy

Year ended 30 June Performance measure	Description	Actual 2022–23	Standard 2023–24	Actual 2023–24
New overpayments created	Reduction/((increase) in new overpayments created compared with the previous year	(52.91%)	15.00%	(3.99%)
Net overpayment debt is less than specified level	The balance of net overpayment debt is less than the standard level	\$3.6 M	\$2.0 M	\$3.5 M

- Where an authority to deduct overpaid salary/allowance is received and processed from an employee's next available pay, no overpayment is recorded and is not added to this calculation. Overpayments happen for a range of reasons, including incorrect or late information being provided in payroll instructions.
- Net overpayment debt is a new measure that started in 2022–23. We are working with the Ministry to improve overpayment management performance as Education Payroll does not have the levers to influence this measure. It will require significant effort, including changes to our business processes, to bring the debt balance within the target.
- We continue working with the Ministry to write off older debt that is not recoverable. We are exploring ways to change how we deliver this service to meet the Ministry's business requirements. The original business requirement was for Education Payroll to return debt that is over 50 days old and does not have a payment plan in place to the Ministry, as it has the appropriate levers to better manage this older debt.

Timeliness

Year ended 30 June Performance measure	Description	Actual 2022–23	Standard 2023–24	Actual 2023–24
Overpayment notification made on time	Employees receive their first overpayment notification letter within 15 working days of the overpayment being discovered	89.39%	99.50%	96.23%

- Performance was significantly disrupted in 2022–23 for the three regions hardest hit by the weather events associated with Cyclone Gabrielle. The annual embargo on debt recovery over Christmas/New Year was extended to provide some relief after the weather events of early 2023. This embargo remained in place for a prolonged period in the three regions hit hardest by Cyclone Gabrielle and its aftermath.
- 'Discovery' is either the date of notification from the school/the Ministry/third party or the date we discover the overpayment.

- Notification may be put on hold for some time for various reasons. Process improvements are under way to refine the services expectation.

SALARY ASSESSMENT

We received approximately 5,500 requests for assessments in 2023–24 (5,600 in 2022–23).

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

This year we worked with the Ministry to redesign the salary assessment process and launched a new portal for online applications in September 2023. Unfortunately, defects in the new portal had a negative impact on our ability to process applications and meet salary assessment performance standards. We will be working closely with the Ministry and schools to address issues with the salary assessment process in 2024–25.

Accuracy

Year ended 30 June Performance measure	Description	Actual 2022–23	Standard 2023–24	Actual 2023–24
Notification of errors related to salary assessment determinations	Salary assessments do not result in overpayments	99.85%	99.50%	99.66%

This calculation is based on the pay impacting tickets in our pay centre workspace, which were triggered by salary assessments.

Timeliness

Year ended 30 June Performance measure	Description	Actual 2022–23	Standard 2023–24	Actual 2023–24
Salary assessments processed on time	Assessments processed within 15 working days from date of receipt	96.25%	100.00%	76.83%

- Issues with the new salary assessment portal had a negative impact on our application processing times and customer experience. The number of calls from schools increased by 53% on average over the 20-week peak processing period. We are working through the issues with salary assessment in collaboration with the Ministry.

ACC ADMINISTRATION

We processed approximately 2,200 ACC claims on behalf of schools in 2023–24 (2,300 in 2022–23).

Accuracy

Year ended 30 June Performance measure	Description	Actual 2022–23	Standard 2023–24	Actual 2023–24
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%	99.50%	98.59%

SUSTAINABLE & SECURE ORGANISATION

These measures report on our use of smart, secure and sustainable practices.

Year ended 30 June Performance measure	Actual 2022–23	Standard 2023–24	Actual 2023–24
The number of future-proofing or sustainability-related issues identified as high priority or above in the annual audit	0	0	1
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%

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



RESPONSIVE SERVICE

Promptly delivering newly agreed entitlements for school employees.

The school 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 system changes to ensure everyone gets what they are entitled to receive.

Year ended 30 June Performance measure	Actual 2022–23	Standard 2023–24	Actual 2023–24
Implement collective agreements within three pay periods of receiving full business requirements from the Ministry	100%	100%	New timeline negotiated

During 2023–24, 12 of the 14 collective agreements had pay-impacting changes or variations. We also implemented changes associated with pay equity settlements and there were additional payments made for historical Holidays Act remediation. We would usually make three or four changes per year but in 2023–24, we made 29 changes.

Because of the exceptionally high numbers of changes for everyone involved, we agreed with the Ministry and unions to prioritise and stage the roll out of changes across more than the standard three pay periods, and we achieved the agreed timelines. We expect to be able to implement changes within three pay periods in 2024–25, when the planned volume of changes to employment agreements is back to normal.

STAFF ENGAGEMENT

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

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



Key for shading of performance measures

The colour shading on the Actual 2023–24 column represents the difference between the actual and standard measures for 2023–24.

Green = the measure was met or exceeded

Light green = the difference is less than -0.5%

Amber = the difference is between -0.5 and -5%

Red = the difference is -5%+

6. OUR CUSTOMERS

With the large number of changes to employment agreements and subsequent variations throughout the year, this has been an unusually active and complex payroll year for our customers. We're grateful for the work that took place across the schooling sector to ensure most of these changes went smoothly. We also acknowledge that the volume of change has created some communication and technical challenges that we've worked through alongside the Ministry and unions to resolve.

Supporting our customers

Our dedicated School Account teams provided advice and support to their groups of school administrators and principals throughout the year.

Our advice and support are highly valued by schools, particularly during periods of change, and this helps us deliver the payroll accurately each fortnight.

This year, we made or received over 121,000 calls, and we received and processed over 241,000 service request tickets.

Many of those calls related to the unusually large number of collective agreements, variations and lump sum payments we processed this year.

Changes to payroll, including lump sum payments, increased the complexity of the Staff Usage and Expenditure (SUE) reports for our customers – particularly where some of these lump sum payments were calculated differently in different employment agreements.

End-of-year/start-of-year

One of the most significant events in the school payroll calendar each year is the end-of-year/ start-of-year (EOY/SOY) period.

Between October and March, we work with schools to enter information to ensure school employees are paid correctly over the term four break (EOY) and when they return to school in the new year (SOY). This year, even though significant collective agreement, variation and lump sum payments happened throughout the EOY/SOY period, the process ran smoothly. We had resoundingly positive feedback from our customers, with a satisfaction score of 93% for the EOY period, and 92% for the SOY period.

To add complexity to an already busy time of the year for schools, the salary increases for principals and support staff due from 1 December were paid at the same time as holiday pay payments that were due at EOY.

This made an already time-consuming and complicated process more difficult for our customers and staff but enabled these payments to be made before Christmas.

Customer satisfaction

We send online customer satisfaction surveys to a sample of school payroll administrators and principals each quarter.

As a result of the improvement actions we took following last year's results, customer satisfaction has increased in all areas when compared with last year.

This year, the overall score was 81% satisfied and 16% neutral, giving a combined score of 97%.

- Our telephone metrics increased in all areas, with *Telephones are answered promptly* increasing from 69% last year to 75% this year.
- Our email metrics also increased in all areas, with *Email response is delivered in a timely manner* increasing from 60% last year to 67% this year.

The top areas where our customers would still like to see improvement include:

- EdPay (ability to do more, improved reporting)
- staff capability
- phone experience.

7. OUR TECHNOLOGY AND RESILIENCE

The major focus this year for our technology teams has been implementing the large number of system-level changes to employment agreements and pay equity settlements. We have also carried out a number of remediation and improvement tasks, lifted our cybersecurity capability and improved our system resilience.

Employment agreement changes

The first half of the year was mostly taken up with implementing a large number of changes to sector employment agreements that affected over 52,000 school employees.

Our teams implemented changes to seven collective agreements and the associated individual employment agreements, plus five variations to existing agreements.

The seven collective agreements covered primary, secondary, and area teachers, plus community education, primary principals (NZEI Te Riu Roa) and area principals and Te Kura specialist staff.

The five variations covered cleaners, caretakers and canteen staff, support staff, Te Kura early childhood, primary teachers, and primary principals (Primary Principals' Collective Bargaining).

The five variations involved full pay change implementations plus lump sums, which meant we effectively implemented those agreements twice.

To manage the volume and complexity of the changes, and to support schools to communicate these changes to their staff, we agreed the following implementation principles with the Ministry.

- Pay lump sums as soon as possible.
- Only one agreement change per pay period.
- No other pay changes occurring in that period (eg pay equity, partial payments for Holidays Act).
- No changes to payments in vacation periods.
- Variations to have lower priority than agreements that had not yet been implemented.

The changes also required us to do significant work relating to the employment arrangements for specialised groups, including Māori immersion teachers, Pacific bilingual immersion teachers, cultural leadership and community liaison.

Cybersecurity uplift

The global cybersecurity environment becomes more and more challenging each year and, like most government organisations, we see an ever-increasing number of attempts to attack our systems.

As a large payroll business, we are also seeing a lift in the sophistication of attacks. We use strong counter-measures to address these, and we activate robust plans in response to attacks.

We use the New Zealand Information Security Manual (NZISM) and the Technology Cybersecurity Framework (CSF) to guide our investment in cybersecurity.

We continue to work closely with the Ministry, Network for Learning and the wider education sector to help with the prevention of, and response to, cyber-attacks on schools.

Last year we joined the Government Information Security Forum, which has enabled us to collaborate widely across government and tap into the cyber capabilities of larger agencies.

We have also completed an assessment to confirm our cybersecurity effectiveness against the NZISM and CSF, to help us identify opportunities to strengthen cybersecurity across our environments.

System resilience management

Because our core payroll system is ageing, we have an elevated focus on maintenance and continuous improvement of the supporting infrastructure, software, applications and ancillary technology systems.

As a result, our core payroll system continues to be reliable, stable and available throughout the year.

The 2023–24 changes to employment agreements required updates to many parts of our Alesco core payroll system and our EdPay front-end.



We also continued with our normal hardware lifecycle management, process improvement and system upgrades to keep our system availability, reliability and performance at target levels.

To ensure our systems can respond if we need to activate our business continuity plans during a major event, we carried out a full disaster recovery test this year. That test was completed successfully.

An independent review of our backup practices, processes and procedures was also completed.

People capability

We use a specialised in-house team plus support partners to manage our core systems.

This year our focus has been on building the capability of our permanent staff, following the exit of a number of contractors last year.

Given the complexity of our systems, we are reducing our reliance on key subject matter experts, by ensuring that knowledge is disseminated from our most experienced staff to our newer members.

E-Invoicing

Education Payroll has implemented e-invoicing during the year and can now send and receive e-invoices.

8. OUR PEOPLE

Our people are at the heart of the payroll services we deliver to schools and kura, so creating and maintaining an environment and culture that effectively supports our people is critical to our business.

The structure of our workforce

Our staff headcount at the end of June 2024 was 186 permanent employees, supported by specialist third-party services.

Our payroll service delivery teams have a core staff of 106 employees, and we employ extra people to support the busy EOY and SOY periods.

Our service development teams manage the stability and security of the payroll service and the underlying payroll systems and technology.

Our infrastructure and support (back office) teams enable our payroll service delivery and service development teams to operate efficiently.

Our workplace and flexibility

In September 2023, we moved into our new office after almost a year of working from temporary offices and at home due to a flood in our previous office. The move involved installing Wi-Fi and meeting room services to improve our collaboration and flexible working capabilities. Our new office seats 150 people. Staff feedback on our office space has been positive.

Kōrero Mai employee experience survey

We conducted our annual Kōrero Mai survey in March 2024 and 88% of staff responded. Our employee experience score remained consistent with the previous year.

Following last year's survey, we focused on improving areas where we scored relatively lower and areas where verbatim feedback showed we could make the biggest difference to our staff work experience. Measures in these areas have improved, and we will continue our efforts into the next year.

Health, safety and wellness

The health, safety and wellness of our staff is very important to us. Our work programme is planned with our staff in mind, aiming for workloads that optimise performance and support wellbeing.

During EOY/SOY period, we hired an additional 12 fixed-term staff members in payroll service delivery.

System improvements and enhanced staff capability meant that overtime use was significantly lower across this busy period than previous years, enabling us to have an office shutdown over Christmas/New Year and staff to benefit from a summer break.

Our three Wellness Leave days, available to permanent staff and those on fixed-term contracts of 12 months or longer, continue to be valued by our staff to proactively support their own wellbeing in a way that works for them.

Turnover and recruitment

Our staff turnover in 2023–24 was 30.7% (24% in 2022–23). Leadership and team changes as a consequence of our capability review were the major drivers of this increase.

The payroll we administer has many unique qualities, which means we develop and grow capability ourselves. Recruitment is still highly competitive, but we are currently attracting a higher number of quality candidates.

Capability review

In November 2023 we started a detailed review of our current and required capabilities, looking at where we are headed as an organisation and how we are set up to deliver to our customers.

As a result of that review, we made changes to our operating model and some of our positions. We are confident that the operating model in place from 1 July 2024, provides a positive foundation to deliver on our strategy.

9. STATEMENT OF CORPORATE GOVERNANCE

Organisational form

Education Payroll was incorporated on 17 October 2014 under the Companies Act 1993. It is a Crown-owned company listed in Schedule 4A of the Public Finance Act 1989 and is domiciled in New Zealand.

The company is subject to certain provisions of the Crown Entities Act 2004 and to the Official Information Act 1982, the Privacy Act 2020 and the Ombudsmen Act 1975. The company's day-to-day operations are primarily governed by the Companies Act.

Education Payroll's shareholding is 100% vested in the Crown. Its shareholders are the Minister of Finance and the Minister of Education, with each holding 50% of the issued share capital.

Accountability

Education Payroll is accountable to its shareholding ministers. Treasury assists shareholding ministers in monitoring the company's performance against financial and non-financial measures. The Ministry contracts Education Payroll for payroll services in accordance with a Master Services Agreement (MSA) signed in 2017, which can be renewed until June 2027.

Crown Entities Act 2004

Under section 45OA of the Public Finance Act 1989, some of the provisions of the Crown Entities Act (CEA) apply to the company by virtue of it being listed in Schedule 4A of that Act. These include sections 139, 150 and 153 of the CEA, which respectively relate to preparing a statement of intent, a statement of performance expectations and an annual report.

Companies Act 1993

Under the Companies Act (the Act), the Board, each director and each shareholding Minister have the rights, powers, duties and obligations set out in the Act, except to the extent that they are negated or modified, in accordance with the Act, by the company's constitution.

Operations

Education Payroll is required to operate within the functions, powers and constraints outlined above. Within this framework, the company has considerable discretion as to how it goes about its day-to-day operations. This report contains information concerning the operations and performance of the company for 2023–24.



Education Payroll Board

From left to right: Liz Maguire, Deidre Shea, Mads Moller, Naomi Ferguson, David Skinner.

OUR BOARD

Naomi Ferguson QSO – Board Chair

Naomi has more than 35 years' senior leadership experience in the public sector in New Zealand and the United Kingdom (UK) and took on the Education Payroll Board Chair role in November 2022. She led Inland Revenue between 2012 and 2022, leading the successful delivery of the highly complex Business Transformation Programme during her tenure. She is widely recognised as an effective leader of significant change programmes in large and complex organisations.

Naomi is passionate about diversity and inclusion and was Co-chair of Papa Pounamu, a trustee of Diversity Works New Zealand, and sponsor of the Government Women's Network. She was awarded the Women of Influence Public Policy award in 2016 in recognition of her work in this area.

Naomi previously served on the Board of Health NZ Te Whatu Ora and the Risk and Assurance Committee for the Ministry of Justice.

She has a Master of Arts from Glasgow University. She is also a member of the Institute of Directors.

Liz Maguire – Board Director

Liz Maguire is the Chief Digital Officer at the New Zealand Transport Agency Waka Kotahi (NZTA), where she leads the strategic development and implementation of digital initiatives aimed at transforming New Zealand's land transport infrastructure and services. With a background in digital innovation and technology leadership, Liz is instrumental in driving NZTA's digital strategy, focusing on enhancing user experiences, operational efficiency and data-driven decision-making.

Liz is a seasoned leader who brings significant experience with leadership of large transformation programmes, payments and digital technology. She is the former Head of Digital and Transformation at ANZ Bank in New Zealand and was a member of ANZ New Zealand's executive leadership team for four years.

Liz has a Bachelor of Commerce in Management Studies and Labour Relations from the University of Auckland and she is a member of the Institute of Directors in New Zealand.

David Skinner – Board Director

David is an Executive Director of Gravelroad Consulting, specialising in infrastructure and public policy risk economics. He has had a management career in

telecommunications, electronic banking and defence.

Previous positions include Managing Director of Netway, Hypercom, and Chief Operating Officer at Clear Communications. He has worked previously in the UK, Europe and Australia.

David holds a Bachelor of Engineering from Canterbury University and a Master of Business Administration from Auckland University and is an associate fellow of the New Zealand Institute of Management.

Mads Moller – Board Director

Mads brings over 30 years of experience as a technology entrepreneur and CEO of his tech startups, along with C-suite leadership roles at companies such as IBM, Broadcom, Vodafone and Google. He has over three decades of experience in governance, serving as a Director or Chair across companies in Denmark, Sweden, Norway, the UK and the United States (US).

Currently, Mads serves as an independent Director or Chair for: Quotable Value Ltd, OrbViz Ltd, Christchurch Symphony Orchestra, FuseIT Ltd, Yärken Ltd, Multorum Ltd, Vertical Group A/S (Norway), VMC Ltd and his own companies.

Mads holds an MBA in International Marketing Strategies from Copenhagen Business School and another in International Strategy and Corporate Finance from London Business School.

Deidre Shea NZOM – Board Director

Deidre has held a variety of leadership roles in education throughout her career. Recent positions include Principal of Onehunga High School, executive member of both the Auckland Secondary School Principals' Association and the Secondary Principals' Association of New Zealand (SPANZ). Deidre served as President of SPANZ from 2019 to 2021. She has also chaired the NCEA (National Certificate of Educational Achievement) Professional Advisory Group for the Minister of Education.

For the past decade, Deidre has chaired the Alternative Education consortium Te Hikoi and she is a Commissioner with the Tertiary Education Commission.

Deidre has a Bachelor of Science in Mathematics and Statistics, a Diploma of Teaching and a Post Graduate Diploma in Educational Administration. In the 2022 Queen's Birthday Honours she was appointed as a member of the New Zealand Order of Merit (NZOM) for services to education.

DIRECTORS' INTEREST REGISTER

Education Payroll maintains an interest register to identify and manage conflicts of interest. No directors hold shares in Education Payroll. The current directors have made general disclosures of interest (as at 30 June 2024) with external organisations based on them being a chair, director, board member, trustee, member, owner, employee or advisor of those organisations or holding material securities or shares in those organisations.

Name	Description	Date
Naomi Ferguson	Principal – Naomi Ferguson Consulting	June 2022
	Member – Kapiti Living Without Violence	February 2023
	Board member – Te Whatu Ora Health NZ	September 2022
Liz Maguire	Employee – NZ Transport Agency Waka Kotahi	October 2021
	Member – National Ticketing System Governance Board	December 2022
	Member – Digital Identity Services Trust Framework Board	October 2023
	Founder and Director – Five Points Digital Limited	April 2020
David Skinner	Shareholder – Gravelroad Ltd	2007
	Founder and Director – Otero Services Ltd	2004
	Owner – Waterside Investments Ltd	1992
Mads Moller	Director – Quotable Value Ltd	October 2018
	Trustee – Christchurch Symphony Orchestra	June 2022
	Chair – OrbViz	November 2020
	Director – Virtual Medical Coaching	September 2021
	Chair – FuseIT	September 2022
	Chair of board and investor – Yärken	April 2023
	Director – Backstory Ltd	January 2024
	Owner/Director – Multorum Ltd	January 2017
	Board Advisor – UC Business School Advisory	March 2017
	Board Advisor – Kea Aerospace	August 2019
	Board Advisor – Information Leadership	February 2023
	Owner/Director – ForwardDigi (USA)	February 2014
	Owner/Director – ProCon (USA)	December 2012
	Owner/Director – Protego (UK)	July 2007
	Owner/Director – CrossRef (UK)	June 2023
Deidre Shea	Owner/Director – Vigilante (DK)	January 2008
	Owner/Director – AxeCentre (DK)	June 2023
	Owner/Director – IOTAI (DK)	June 2023
	Chair – Te Hikoi Management Committee (Alternative Education consortium), Aorere College	2002
	Chair – NCEA Professional Advisory Group, Ministry of Education	2018
	Board member – Tertiary Education Commission	2023
	Trustee – Youth Education and Development Trust	2009
	Leadership Support – Zayed College for Girls	2024

10. STATEMENT OF RESPONSIBILITY

The Board is responsible for the preparation of Education Payroll's financial statements and Statement of Service Performance and for judgements made in them.

The Board has the responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurances as to the reliability and integrity of financial and non-financial reporting.

In the Board's opinion these financial statements and Statement of Service Performance fairly reflect the financial position and operations of Education Payroll for the year ended 30 June 2024.



Naomi Ferguson QSO

Board Chair
Education Payroll Limited



Liz Maguire

Chair of Audit and Risk Committee
Education Payroll Limited

11. INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT TO THE READERS OF EDUCATION PAYROLL LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2024

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

Opinion

We have audited:

- the financial statements of the Company on pages 27 to 44, that comprise the Statement of Financial Position as at 30 June 2024, the Statement of Comprehensive Revenue & Expenses, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Company on pages 8 to 13.

In our opinion:

- the financial statements of the Company on pages 27 to 44:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2024; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 8 to 13:
 - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2024, including for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 24 October 2024. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

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

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Company's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 7 and pages 14 to 21 but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in

the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit, we perform an independent assurance engagement over the education payroll services provided by Education Payroll Limited for the Ministry of Education. Other than this engagement and the audit, we have no relationship with, or interests in, the Company.



Sam Nicolle

Ernst & Young

On behalf of the Auditor-General

Financial statements

12. FINANCIAL STATEMENTS

Statement of comprehensive revenue and expenses for the year ended 30 June 2024

		Actual 2023 \$000	Budget 2024 \$000	Actual 2024 \$000
Year ended 30 June	Notes			
Revenue				
Sales of services to government	1	33,575	38,000	34,932
Interest received		526	720	1,039
Total revenue		34,101	38,720	35,971
Expenses				
Personnel expenses	2	14,682	15,911	17,182
Third-party support		1,576	1,203	2,466
Corporate expenses	4	588	744	550
Auditor's remuneration	5	93	95	100
Directors' remuneration	6	134	139	139
Travel and entertainment		14	26	6
Accommodation and facilities		682	762	787
Information and communication technology costs		6,997	8,092	7,145
Depreciation, amortisation and provision for impairment	8, 9	4,550	6,002	5,401
Total operating expenses		29,316	32,974	33,776
Non-operating expenses				
Loss on asset disposal	8, 9	1,013	–	176
Interest expense		428	430	427
Total non-operating items		1,441	430	603
Total expenses		30,757	33,404	34,379
Total surplus for the period		3,344	5,316	1,592
Total comprehensive income		3,344	5,316	1,592

These financial statements should be read in conjunction with the accompanying notes.

Financial statements

Statement of financial position as at 30 June 2024

		Actual 2023 \$000	Budget 2024 \$000	Actual 2024 \$000
As at 30 June	Notes			
Current assets				
Cash and cash equivalents		14,211	8,271	13,365
Receivables from exchange transactions		357	1,610	38
Prepayments		1,454	2,594	1,266
Total current assets		16,022	12,475	14,669
Non-current assets				
Property, plant and equipment	8	1,323	2,211	1,265
Intangible assets	9	28,526	36,916	28,686
Work in progress		7,997	636	4,848
Total non-current assets		37,846	39,763	34,799
Total assets		53,868	52,238	49,468
Represented by:				
Current liabilities				
Accruals and payables	11	1,995	4,479	1,818
Employee entitlements		1,003	500	1,063
Income in advance		122	–	3,472
Borrowings (current portion)	12	9,225	–	–
Total current liabilities		12,345	4,979	6,353
Total liabilities		12,345	4,979	6,353
Net assets		41,523	47,259	43,115
Shareholders' funds				
Capital contributions	16	25,520	25,520	25,520
Retained earnings		16,003	21,739	17,595
Total shareholders' funds		41,523	47,259	43,115

These financial statements should be read in conjunction with the accompanying notes.

Financial statements

Statement of changes in equity for the year ended 30 June 2024

	Actual 2023 \$000	Budget 2024 \$000	Actual 2024 \$000
Opening balance as at 1 July 2023	38,179	41,943	41,523
Movements:			
Total comprehensive income for the year	3,344	5,316	1,592
Balance as at 30 June 2024	41,523	47,259	43,115

These financial statements should be read in conjunction with the accompanying notes.

Financial statements

Statement of cash flows for the year ended 30 June 2024

		Actual 2023 \$000	Budget 2024 \$000	Actual 2024 \$000
Year ended 30 June	Note			
Cash flows from operating activities				
Receipts from sales to the Ministry of Education		33,660	38,000	38,601
Receipts from interest		526	720	1,039
Receipts from other income		1	–	–
Cash inflows from operating activities		34,187	38,720	39,640
Payments to suppliers		10,905	11,060	11,188
Payments to employees		14,510	15,911	17,116
Cash outflows from operating activities		25,415	26,971	28,304
Net cash inflows from operating activities	14	8,772	11,749	11,336
Cash flows from investing activities				
Payments from investment in tangible and intangible assets		8,590	6,500	2,530
Cash outflows from investing activities		8,590	6,500	2,530
Net cash outflows from investing activities		(8,590)	(6,500)	(2,530)
Cashflows from financing activities				
Repayments of borrowing costs		–	9,225	9,225
Interest on borrowings		428	430	427
Cashflows outflows from financing activities		428	9,655	9,652
Net cash outflows from financing activities		(428)	(9,655)	(9,652)
Net increase/(decrease) in cash and cash equivalents		(246)	(4,406)	(846)
Cash and cash equivalents at beginning of year		14,457	12,677	14,211
Cash and cash equivalents at end of year		14,211	8,271	13,365
Represented by:				
Cash at bank		14,211	8,271	13,365
Total cash position		14,211	8,271	13,365

These financial statements should be read in conjunction with the accompanying notes.

13. NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

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. The company is domiciled and operates in New Zealand 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, the company does not operate to make a financial return.

Education Payroll has designated itself as a public benefit entity (PBE) for financial reporting purposes. The financial statements are for the year ended 30 June 2024, and the Board approved them for issue on 22 October 2024.

Basis of preparation

The financial statements disclosed are for the period 1 July 2023 to 30 June 2024.

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

Education Payroll is a Tier 1 entity and the financial statements have been prepared in accordance with and comply with PBE Standards.

Budget figures

Education Payroll's *Statement of Performance Expectations 2023–24* budget was adopted by the Board on 13 April 2023 and published on 30 June 2023.

Basis of measurement

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

Presentation currency and rounding

The 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

There have been no changes in accounting policies since the date of the last audited financial statements. All policies have been applied on a basis consistent with the previous year.

SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements, as set out below, have been applied consistently in preparing these financial statements.

Revenue – sales of services to government

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.

Interest revenue

Interest revenue is recognised by accruing the interest due for the investment on a time proportion basis.

Foreign currency transaction

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates, are recognised in surplus or deficit.

Leases

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.

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 insignificant risks of changes in value.

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.

A provision for impairment of accounts receivable is made when 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.

Property, plant and equipment

Property, plant and equipment asset classes consist of office equipment, furniture and fittings, information & communications technology (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.

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 disposals are reported net in the surplus or deficit.

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
Furniture and fittings	3 to 12 years
Leasehold improvements	3 to 9 years

Intangible assets

Software acquisition and development

Software is a finite-life intangible and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the estimated useful life of the intangible asset.

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

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 10 years
Intangibles	up to 10 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:

- fee for use of application software
- customisation costs.

Recognised as an operating expense as the service is received:

- 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-premises systems, and meets the definition of, and recognition criteria for, an intangible asset.

Work in progress

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

Accruals and payables

Creditors and other payables are non-interest bearing and are normally settled within 10 days, therefore the carrying values of creditors and other payables approximate their fair value.

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.

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 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 school payroll service.

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 was paid on 27 June 2024.

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 financial statements, estimates and assumptions have been made based on historical experience and other factors that are considered to be relevant to the reported amounts of revenues, expenses, assets and liabilities at the end of the reporting period. The uncertainty from these assumptions and estimates could result in outcomes that may result in a material adjustment to the carrying amounts of assets and liabilities.

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 previous year, directors assessed the appropriateness of the current useful lives of Education Payroll's intangible assets.

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 they will generate future economic benefits for Education Payroll.

Fair value is determined using costing information available taking into consideration relevant indicators of impairment.

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 the asset.

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.

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.

1. SALES OF SERVICES TO GOVERNMENT

Rendering services – full cost recovery

Under the Service Level Agreement dated December 2017, Education Payroll is operating under a fixed pricing schedule. Revenue from the rendering of services is recognised by the completion of the fortnightly pay. Completion is measured at the end of each month when the full cost of running the service is captured.

2. PERSONNEL EXPENSES

	2023 \$000	2024 \$000
Wages and salaries	16,358	17,342
Other personnel costs	1,448	1,327
Transfer to capital	(3,124)	(1,487)
Personnel expenses	14,682	17,182

The table below shows total remuneration received by Education Payroll's employees that is equal to or exceeds \$100,000 per annum during the year ended 30 June 2024.

Remuneration band (\$)	2023 Number of employees	2024 Number of employees
410,000 to 419,999	–	1
290,000 to 299,999	1	–
260,000 to 269,999	1	1
230,000 to 239,999	2	1
200,000 to 209,999	–	1
190,000 to 199,999	3	1
180,000 to 189,999	2	3
170,000 to 179,999	2	1
160,000 to 169,999	6	3
150,000 to 159,999	7	6
140,000 to 149,999	3	8
130,000 to 139,999	6	6
120,000 to 129,999	6	1
110,000 to 119,999	7	11
100,000 to 109,999	9	7

During the year ended 30 June 2024, one employee received compensation and other benefits in relation to cessation totalling \$188,360 (2023: \$0).

3. RELATED PARTIES

Key management personnel

The key management personnel, as defined by PBE IPSAS 20 Related Party Disclosures, are the members of the governing body, comprising the Board of Directors (5) (2023: 5 directors) and Executive Team (7) (2023: 4), which constitutes the governing body of the company. The aggregate remuneration of key personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration is as follows:

	2023 \$000	2024 \$000
Key management personnel remuneration		
Executive Team	1,232	1,819
Board	134	139
Number of persons recognised as key management personnel	9	12

During the year the Chief Executive received remuneration of \$417,286 (2023: \$231,328). In the prior year there was a change in this position where the previous Chief Executive received remuneration of \$233,827 and the new Chief Executive received remuneration of \$231,328. These amounts include employer contributions to KiwiSaver. No incentive remuneration is included or payable in this amount. The Chief Executive participates in Education Payroll's group salary continuance and employee life insurance policies. Education Payroll has taken out Directors' and Officers' Liability and Professional indemnity insurance cover during the financial year for the liability or costs of Board members and employees.

Government-related transactions

Education payroll transacts with other government entities. Significant transactions and balances are as follows:

	2023 \$000	2024 \$000
Revenue		
Ministry of Education	33,575	34,932

4. CORPORATE EXPENSES

	2023 \$000	2024 \$000
Ministry of Education emergency payment expense	1	–
Fringe benefit tax	16	23
Insurance	185	215
Other corporate costs	132	44
Payslip printing and postage	238	255
Stationery, printing and photocopying	6	8
Other	10	5
Total corporate expenses	588	550

5. AUDITOR'S REMUNERATION

Fees to Ernst & Young is for the audit of the financial statements and no other services were provided for the year under review.

6. DIRECTORS' REMUNERATION

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

Year ended 30 June	2023 \$000	2024 \$000
Sandi Beatie (Chair to 31/10/2022)	19	–
Naomi Ferguson (Chair from 1/11/2022)	41	55
Colin MacDonald *	16	–
Mads Moller	28	28
Deidre Shea **	2	28
David Skinner	28	28
Liz Maguire	–	–
Total directors' remuneration	134	139

* Colin MacDonald ceased to be a Director on 31 January 2023.

** Deidre Shea appointed as a Director on 1 June 2023.

Education Payroll has directors' liability and professional indemnity insurance cover in respect of the liability or costs of board members and employees.

7. OPERATING LEASES AS LESSEE

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	2023 \$000	2024 \$000
Not later than one year	229	665
Later than one year and not later than five years	1,203	333
Later than five years	–	–
Total non-cancellable operating leases	1,432	998

Education Payroll moved to the new premises in October 2023. This lease term is until 31 December 2025 with the right to renewal for a further six years until 31 December 2031.

Education Payroll leases office premises and office equipment in the normal course of its business.

8. PROPERTY, PLANT AND EQUIPMENT

	Furniture & fittings \$000	ICT equipment \$000	Office equipment \$000	Leasehold improvements \$000	Total \$000
Opening cost as at 1 July 2023	208	2,809	55	7	3,079
Additions	–	36	–	–	36
Transfers	–	21	–	374	395
Disposals	(37)	(636)	(47)	(6)	(726)
Closing cost	171	2,230	8	375	2,784
Less accumulated depreciation					
Opening accumulated depreciation	(190)	(1,510)	(49)	(7)	(1,756)
Depreciation for the year	(7)	(455)	(6)	(15)	(483)
Accumulated depreciation written off on disposal	37	630	47	6	720
Closing accumulated depreciation	(160)	(1,335)	(8)	(16)	(1,519)
Closing balance at 30 June 2024	11	895	–	359	1,265

	Furniture & fittings \$000	ICT equipment \$000	Office equipment \$000	Leasehold improvements \$000	Total \$000
Opening cost as at 1 July 2022	388	2,208	60	394	3,050
Additions	–	14	–	–	14
Transfers	–	876	–	–	876
Disposals	(180)	(289)	(5)	(387)	(861)
Closing cost	208	2,809	55	7	3,079
Less accumulated depreciation					
Opening accumulated depreciation	(281)	(1,435)	(36)	(259)	(2,011)
Depreciation for the year	(64)	(314)	(18)	(62)	(458)
Accumulated depreciation written off on disposal	155	239	5	314	713
Closing accumulated depreciation	(190)	(1,510)	(49)	(7)	(1,756)
Closing balance at 30 June 2023	18	1,299	6	–	1,323

9. INTANGIBLE ASSETS

	Developed software \$000	Software licenses \$000	Other intangibles \$000	Work in progress \$000	Total \$000
Opening cost as at 1 July 2023	38,352	8,153	11,807	7,997	66,309
Additions	–	–	–	2,494	2,494
Transfers	5,121	–	–	(5,516)	(395)
Disposals	–	(218)	(70)	(127)	(415)
Closing cost	43,473	7,935	11,737	4,848	67,993

Less accumulated amortisation

Opening accumulated amortisation	(17,521)	(6,013)	(6,252)	–	(29,786)
Amortisation for the year	(3,604)	(527)	(787)	–	(4,918)
Accumulated amortisation written off on disposal	–	175	70	–	245
Closing accumulated amortisation	(21,125)	(6,365)	(6,969)	–	(34,459)
Closing balance at 30 June 2024	22,348	1,570	4,768	4,848	33,534

	Developed software \$000	Software licenses \$000	Other intangibles \$000	Work in progress \$000	Total \$000
Opening cost as at 1 July 2022	33,392	8,153	11,815	6,136	59,496
Additions	–	–	–	8,576	8,576
Transfers	4,960	–	42	(5,878)	(876)
Disposals	–	–	(50)	(837)	(887)
Closing cost	38,352	8,153	11,807	7,997	66,309

Less accumulated amortisation

Opening accumulated amortisation	(14,755)	(5,484)	(5,477)	–	(25,716)
Amortisation for the year	(2,766)	(529)	(797)	–	(4,092)
Accumulated amortisation written off on disposal	–	–	22	–	22
Closing accumulated amortisation	(17,521)	(6,013)	(6,252)	–	(29,786)
Closing balance at 30 June 2023	20,831	2,140	5,555	7,997	36,523

10. CAPITAL COMMITMENTS

Education Payroll has no contracted commitments for the development of property, plant and equipment or intangible assets as at 30 June 2024 (2023: \$0).

11. ACCRUALS AND PAYABLES

	2023 \$000	2024 \$000
Creditors	1,025	873
Accrued expenses	970	945
Total creditors and other payables	1,995	1,818

Payables are non-interest bearing and are settled on 30-day terms. Therefore, the carrying value of creditors and payables approximates their fair value.

12. BORROWINGS

Education Payroll entered into an agreement with the New Zealand Debt Management Office, a department of The Treasury, in December 2017 to draw on a \$13.2 million Crown loan. The loan was required to maintain adequate working capital and support investment in intangible assets created during the Education Payroll Development Programme. The loan was repaid in full on 27 June 2024.

The interest rate is based on the aggregate of the New Zealand swap rate and the USD (United States dollar) margin. The cost of borrowing is expensed when developments are completed and in use.

	Interest rate	2023 \$000	2024 \$000
August 2018 drawdown	5.13%	2,000	–
December 2019 drawdown	3.79%	2,000	–
June 2020 drawdown	5.21%	2,225	–
September 2020 drawdown	4.49%	3,000	–
Total borrowings		9,225	–

Represented by:

Current	9,225	–
Non-current	–	–
Total borrowings	9,225	–

The amount of borrowing costs capitalised during the year	2	–
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13. CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amount of financial instruments presented in the Statement of financial position relate to the following categories of assets and liabilities:

	2023 \$000	2024 \$000
Loans and receivables		
Cash and cash equivalents	14,211	13,365
Receivables from exchange transactions	357	38
Total loans & receivables	14,568	13,403
Financial liabilities at amortised costs		
Accruals and other payables	1,995	1,818
Borrowing	9,225	–
Total financial liabilities at amortised costs	11,220	1,818

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

	2023 \$000	2024 \$000
Net income	3,344	1,592
Add non-cash items		
Depreciation and amortisation expense	4,550	5,401
Loss in disposal	1,013	176
Net movements in non-cash items	5,563	5,577
Add/(deduct) movements in Statement of financial position items		
Trade debtors	686	300
Accrued income	(19)	19
Prepayments	363	188
Trade and other payables	(957)	(152)
Employment entitlements	58	60
Accruals and provisions	(113)	(25)
Income in advance	(581)	3,350
Net movements in working capital items	(563)	3,740
(Add): items classified as financing activities		
Interest paid on borrowing	428	427
Net cash flow from operating activities	8,772	11,336

15. FINANCIAL INSTRUMENT RISK

Risk management objectives and policies

Education Payroll Limited is exposed to various risks in relation to financial instruments. The company's financial assets and liabilities by category are summarised in note 13. The main types of risks are credit risk and liquidity risk.

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

Liquidity risk

Liquidity risk is the risk that Education Payroll may encounter difficulties in meeting financial liabilities as they fall due. Education Payroll monitors and manages this risk through fulfilment of its Treasury duties. Management regularly reviews its banking arrangements to ensure the best returns are achieved, while maintaining liquidity levels to service day-to-day operations.

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to Education Payroll. The company is exposed to this risk for various financial instruments, for example, by placing deposits. Education Payroll's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date.

The directors have assessed that no financial assets are impaired or past due for the reporting date under review and are of good credit quality. The credit risks for cash and cash equivalents are considered negligible, since the counterparty is a reputable bank with high quality external ratings.

16. EQUITY AND CAPITAL MANAGEMENT

Education Payroll is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which imposes restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

In determining its capital management policy, the main objective of the Board is to ensure that the company has sufficient funds to continue with its main purpose of generating the school payroll.

Education Payroll's objective is to ensure that adequate returns are generated to fund the company's day-to-day activities but also to maintain a strong capital base and minimise its risk exposure.

Shareholders' equity

Contributed equity	Shares	2023 \$000	Shares	2024 \$000
Issued at no par value and not fully paid ordinary shares	100	–	100	–

One hundred shares were issued in 2014 to the Minister of Finance and Minister of Education. The shares have no par value and have not been fully paid.

17. EVENTS AFTER REPORTING DATE

No events have occurred subsequent to the balance date that would require recognition or disclosure in the financial statements (2023: none).

18. EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanations for the significant variances between actual and budget expenditure are detailed below by revenue and expense type.

Revenue was \$3.06 million below budget, this was mainly due to the additional Payroll Upgrade and cybersecurity funding received during the year, where revenue will be recognised as work is performed. Year-to-date revenue released for these activities totals \$0.7 million. \$3.4 million remains on the balance sheet to be released as the work is completed. This has an impact on the cash balance in the Statement of Financial Position, which was \$5.09 million higher than budgeted. The cash balance also accumulated interest revenue.

At the start of the 2023–24 financial year, the budget was primarily allocated to capital enhancement projects. As the year advanced, the emphasis shifted to operating projects, including initiatives such as change requests, investigation into future payroll options, maintenance of the current system and updating the contract agreements. Correspondingly, the shift to operating projects also resulted in a lower than planned transfer of costs to capital projects. This transition resulted in a \$2.5 million increase in expenditures for personnel expenses and third-party services.

This increase in personnel and third-party support expenses was partially offset by a \$0.9 million reduction in ICT costs, achieved through a review of the originally budgeted contracts. The review has led to the adoption of more cost-effective alternatives. This change is also reflected in the prepayments balance that is \$1.3 million below budget. Additionally, there was a \$0.6 million reduction in amortisation, it reflects the level of project capitalisation and the change in mix from capital to operating projects.

Receivable balance is lower than budget based on the average payment days for invoices to the Ministry reduced to 10 days (2023: 20 days).

The change in mix from capital to operating projects for the year had a corresponding impact on intangible assets and the intangible work in progress balances. As a result, we have a \$4.2 million increase in work in progress balance and intangible assets balance is \$8.3 million lower than budget. Income in advance is higher by \$3.42 million for the same reason.





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