

Statement of Performance Expectations **2026–2027**

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Education Payroll

Incorporated in 2014 under the Companies Act 1993, Education Payroll Limited is a Crown-owned company, listed on Schedule 4A of the Public Finance Act 1989 and subject to the Crown Entities Act 2004, the Official Information Act 1982, the Ombudsman Act 1975 and 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 2026 to 30 June 2027, to meet its statutory requirements pursuant to the Crown Entities Act 2004.

This document should be read in conjunction with our *Statement of Intent 2024–2028*.

Published in June 2026

Education Payroll Limited

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1. CHAIR'S FOREWORD

This *Statement of Performance Expectations 2026–2027* sets out our strategic and operational performance expectations and prospective financial statements. It should be read together with our *Statement of Intent 2024–2028* for a complete picture of our strategic planning.

We strive for continuous improvement and believe that we are kaitiaki (guardians) of the schools' payroll, working alongside schools and kura. Together, we are responsible for paying around 102,000 teachers, principals and support staff in schools and kura, approximately \$294 million each fortnight.

Our strategic workstreams this year are focused on our core business of payroll delivery and future-proofing our payroll system. Our core purpose is to ensure the pay goes through accurately, securely and on time every fortnight. To achieve this, payroll changes are implemented within agreed timeframes so that we meet our key performance indicators (KPIs). Around 9,000 payroll requests are received from schools each fortnight, most requiring action within the pay period. Changes to employment agreements may require system-level changes to the core payroll system, the user interface – EdPay – and change support for schools and kura. We also continue to improve EdPay where possible to make payroll easier for schools and kura.

While we work to ensure the pay goes through, we also need to future-proof the payroll system. The current payroll system is reliable and stable but the core technology is over 12 years old, highly customised and is no longer supported. We have been working with the Ministry of Education on a deliberate, carefully planned step to modernise the system, reduce risk and ensure continuity of service. We are well positioned and ready to deliver this upgrade. Our people understand the education-specific payroll in its complexity. We've invested in ensuring our systems, people and partnerships with providers are ready to deliver and support an upgrade.

2025–26 was the culmination of two years of careful planning and preparation to assess the possibility of a future upgrade. In Budget 2026, the Government set aside funding to begin the payroll upgrade.

If our Detailed Business Case is approved, in 2026–27, we will be in the build phase of the upgrade, working with the Ministry and our technology partners to ensure the upgraded system delivers correct pay outcomes. After careful testing to resolve any issues with our 'beta schools' (a small community of schools and kura) we will begin a staged implementation in 2030–31. We believe it will take at least five years to upgrade the technology in a way that minimises the change impact for schools and is not a distraction from their core business of learning and teaching.

Continuous verification of school and kura satisfaction will be as important as ever. Daily engagement and monitoring of performance metrics, together with quarterly surveys, help us gauge emerging issues for the 2,500 schools and kura we support. This is an important area of focus for us and we plan to maintain customer satisfaction to at least the agreed standard of 85 percent in 2026–27.



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.

We work with the Ministry of Education (the Ministry) to provide a reliable and effective schools' payroll service that implements government policy, ensures pay outcomes are consistent with employment agreements and legislation and maximises value to our shareholder.

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

- ▶ We ensure teachers, principals and support staff are paid the right amount on time every fortnight.
- ▶ We administer the systems, processes, data, information, technology and controls that are involved in providing the schools' payroll service.

Our strategic priorities

Our long-term strategic landscape and priorities are set out in detail in our *Statement of Intent 2024–2028*.

Our strategic priorities for 2026–27 will be delivered through strategic workstreams with key milestones, which are set out later in this document.

Our operational priorities

Our operational priorities are to deliver the payroll and to deliver improvements to schools. Our work programme is matched with schools' work cycles. The school payroll year is characterised by high-intensity start-of-year (January–March) and end-of-year (October–December) periods, busy school terms and quieter holiday periods.

The schools' payroll has unique requirements that we understand and provide for.

- ▶ 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 correct payments.

- ▶ 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 their jobs, taxed on the same tax code. Schools only receive information that relates to the work the employee does at their school.

Risk management and assurance

We identify and manage risks across various areas, including strategic, operational, financial, cyber security, privacy and technology.

We regularly review and evaluate current and emerging risks and ensure we take 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 by independent assurance providers.

Measuring our performance

Strategic performance

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

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

We will assess our performance and report against targets and milestones for these workstreams in our quarterly and annual reports.

Operational performance

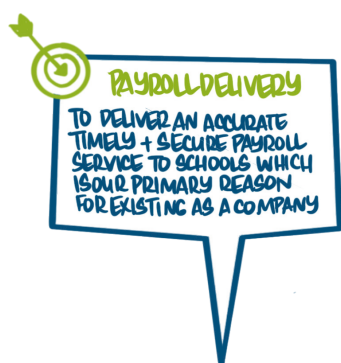
Our operational performance will be monitored using measures agreed with the Ministry and set out in our Performance Measurement Framework and Master Services Agreement.

Calls and queries to our school account team are our most immediate flag for any operational performance issues. We also monitor more than 100 performance-related metrics each day to improve our awareness of longer-term trends and issues.

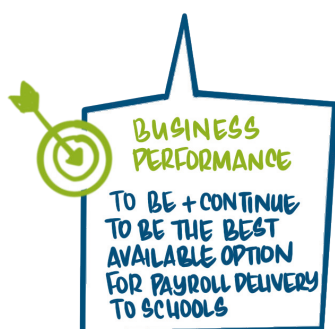
3. SERVICE PERFORMANCE EXPECTATIONS

Our strategic performance

Our strategic performance in the current financial year will be measured against the milestones set out in the tables below. Milestones are the change or benefit we intend to deliver across our strategic workstreams. Detailed results and commentary are reported through our quarterly and annual reports.

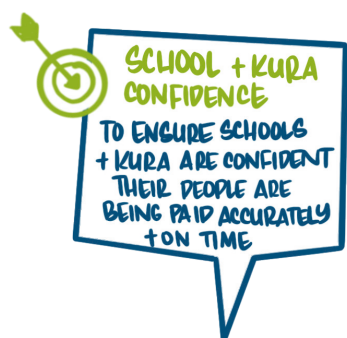


#	Payroll Delivery Workstreams	Milestones
PD1	Timely implementation of changes to employment agreements	Employment agreement changes are implemented in a timely and effective manner, supporting accurate pay outcomes. Measured through timeliness and accuracy KPIs and via feedback from the Ministry.
PD2	Explore what kura need, and identify pragmatic and affordable opportunities	A clear plan is developed that sets out how kura payroll needs will be explored and opportunities identified.



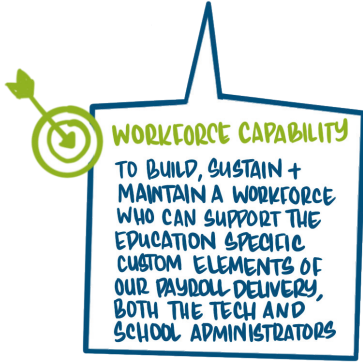
#	Business Performance Workstreams	Milestone
BP2	Benchmark our cost per payslip vs. other payroll providers (value for money)*	Payroll delivery demonstrates value for money through an agreed approach to benchmarking cost-efficiency against comparable providers. Measured through performance on quality KPIs.

* Historically (in 2021), the target for cost per employee was set based on the now discontinued Better Administrative and Support Services (BASS) benchmarking exercise that was run by the Treasury. We are working with the Ministry to agree the most appropriate benchmarking approach for the schools' payroll service.



#	School and Kura Confidence Workstreams*	Milestones
SK1	Surveys and findings, including quarterly surveys	Insights from schools and kura are used to inform targeted improvements and support confidence in the payroll service. Measured by quarterly survey results, feedback trends and quality performance measures.
SK2	Work with beta schools that help us test what works best and resolve issues	Collaboration with beta schools supports early testing and issue identification, contributing to improvements in service quality. Measured by quarterly survey results, feedback trends and quality performance measures.

* This measure was previously named 'Customer Confidence' in the *Statement of Intent 2024–2028*.



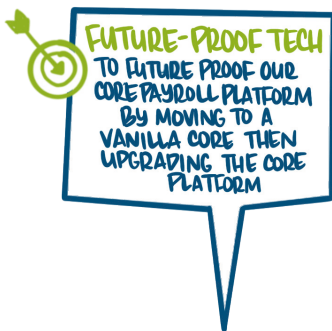
WORKFORCE CAPABILITY
 TO BUILD, SUSTAIN + MAINTAIN A WORKFORCE WHO CAN SUPPORT THE EDUCATION SPECIFIC CUSTOM ELEMENTS OF OUR PAYROLL DELIVERY, BOTH THE TECH AND SCHOOL ADMINISTRATORS

#	Workforce Capability Workstreams	Milestones
WC2	Develop and implement a workforce strategy (key to KPI achievement)	A workforce strategy is in place that supports the capability and capacity required to deliver payroll services and achieve performance expectations. Measured through performance on timeliness, accuracy, quality and staff engagement KPIs.
WC3	Develop and implement staff retention and succession plan	Critical roles and leadership positions are supported through improved retention and succession planning, reducing delivery risk. Measured through performance against timeliness, accuracy, quality and staff engagement KPIs.



FINANCIAL SUSTAINABILITY
 TO LIVE WITHIN OUR APPROVED FUNDING ENVELOPE THROUGHOUT THIS STRATEGIC PLANNING PERIOD

#	Financial Sustainability Workstreams	Milestone
FS2	Finalise the renewal of the Master Services Agreement (due 30 June 2027) with the Ministry to set future service expectations Identify a programme of investments within our approved funding envelope	Clear service expectations and investment priorities are established with the Ministry, supporting financial sustainability within approved funding settings. Measured through existing quarterly and annual financial and performance reporting.



FUTURE-PROOF TECH
 TO FUTURE PROOF OUR CORE PAYROLL PLATFORM BY MOVING TO A VANILLA CORE THEN UPGRADING THE CODE PLATFORM

#	Future-proof Technology Workstreams	Milestones
FP4	Determine the optimum path to resolve the issue of custom code embedded in the core system and then implement that path	A managed approach is established to reduce reliance on custom code and support. Measured by progress against agreed technology milestones.
FP7	Move to the Cloud or upgrade our on-premises infrastructure	Progress is made along an agreed future technology pathway, supporting reduced risk and improved long-term resilience of the payroll system. Measured against agreed technology milestones.

Our operational performance

Our operational performance will be measured against a set of KPIs that form part of our Master Services Agreement with the Ministry, together with other measures that are part of our Performance Measurement Framework. The tables below set out the targets for each KPI this financial year. Our performance against these targets will be reported in our 2026–27 quarterly and annual reports.

CORE PAYROLL SERVICES

Our core services provide secure, accurate and timely payments to school employees. Every fortnight we process around 9,000 new payroll tickets and pay on average 102,000 employees.

Accuracy

Year ended 30 June Performance measure	Description	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Payroll payments are accurately calculated (1)	Employees with their pay processed accurately, excluding all pay and non-pay impacting tickets not processed before the end of the pay period	99.70%	99.90%	99.50%
Payroll instructions submitted 'right first time' by schools (2)	Payroll instructions received from schools that can be processed first time without being returned for further information	84.66%	86.10%	80.00%

1. This measure includes the number of out-of-cycle payments and overpayments caused by the Education Payroll team or system. Until 2024–25, unprocessed instructions were included in the accuracy measure. From 2025–26 this measure no longer includes unprocessed instructions as those payments are yet to be processed and are included in the payroll timeliness measure rather than accuracy.
2. The 'right first time' measure is a leading indicator of payroll accuracy. As this measure improves, we can focus on quickly processing more complex transactions.

Timeliness

Year ended 30 June Performance measure	Description	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Pay timeliness, as indicated by the due date that employees are paid (3)	Employees paid, excluding the employees receiving out-of-cycle payments and all pay-impacting tickets not processed before the end of the pay period	99.84%	99.40%	99.50%

3. This measure evaluates the number of payroll instructions that were processed and paid on time. Until 2024–25, out-of-cycle payments were included in this measure. From 2025–26, out-of-cycle payments are excluded from the timeliness measure to ensure the timeliness and accuracy measures are mutually exclusive. Out-of-cycle payments are now accounted for in the accuracy measure.

Quality

Year ended 30 June Performance measure	Description	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Our services deliver gains and cost benefits for the education sector (4) (5)	Cost of schools' payroll service per school employee paid	\$328	\$237	\$299
Payroll delivery staffing ratio (6)	The number of school employees supported per payroll delivery staff member	633	640	650
Customer satisfaction (7)	Survey respondents satisfied with the overall quality of the service delivery and support received from Education Payroll	87.43%	90.00%	85.00%
Customer effort	Customer effort score (0 = most effort, 10 = least effort)	8.1	8.1	8.5

4. The standard for the average cost of schools' payroll service per employee was set as part of the now closed Education Payroll Development Programme, based on the Treasury's Better Administrative and Support Services (BASS) benchmarking. The resulting standard of \$250 has not been updated or adjusted for inflation since it was established in 2016. This standard continues to apply in 2025–26.

From 2026–27, the standard will be updated to \$299 to reflect inflation since 2016 and will be adjusted annually in line with Treasury-approved funding increases for schools' operational grants.

5. In 2025–26 we revised this measure to include only direct payroll service delivery costs, rather than total Education Payroll costs. This change was made to ensure the measure more accurately reflects the cost of delivering payroll services. Direct payroll service delivery costs include payroll service delivery personnel and payroll-related information and communications technology (ICT) costs and excludes non payroll services such as debt management and salary assessment, as well as enabling functions that are not part of a standard payroll process.

6. This is a new performance measure effective from 2026–27. It measures the number of school employees supported per payroll delivery staff member within Education Payroll and is an indicator of operational efficiency.

Prior period results are calculated based on the 2026–27 measure to enable comparison over time.

7. We receive feedback from schools and implement their suggestions for improvements and enhancements where possible. The table below shows how we have increased the customer satisfaction standard over the years.

	2016–17	2017–18	2019–20	2024–25	2025–26
Standard	60%	70%	75%	80%	85%

Website availability

Year ended 30 June Performance measure	Description	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Service website availability (8)	Availability of the website to school payroll service users for obtaining and submitting information	99.95%	99.60%	98.50%

8. This measure is based on availability from 7am to 7pm on weekdays and 7am to 6pm on weekends and school holidays. We include both the EdPay application and the EdPay.govt.nz website in this measure.

ACC ADMINISTRATION

We process and administer ACC claims for school employees who have had an accident.

In 2025–26, we processed approximately 2,500 ACC claims on behalf of schools (2,500 in 2024–25).

Accuracy

Year ended 30 June Performance measure	Description	Actual 2024–25	Estimated 2025–26	Standard 2026–27
ACC transactions processed accurately by Education Payroll (9) (10)	ACC transactions processed accurately by Education Payroll	99.98%	99.90%	99.50%

9. This measure is influenced by both internal and external factors, including dependencies on notifications from schools and ACC. From 2026–27, it will be replaced by a measure that focuses on the accuracy of ACC transactions processed by Education Payroll.

10. This is a new performance measure effective from 2026–27. Prior period results are calculated based on the 2026–27 measure to enable comparison over time.

OVERPAYMENT MANAGEMENT

We provide notification, recovery and administration of payroll-related overpayments.

Accuracy

Year ended 30 June Performance measure	Description	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Total overpayment balance (11) (12)	Monitor and report on the overpayment balance	\$3.1M	\$3.2M	N/A
Value of new overpayment caused by Education Payroll (13)	Value (\$) of new overpayment debt caused by Education Payroll	\$0.83M	\$0.52M	\$0.65M
Percentage of new overpayment caused by Education Payroll (13)	Percentage of new overpayment debt caused by Education Payroll	25%	22%	23%

11. Overpayments arise for a range of reasons, including incorrect or late information provided to Education Payroll. Overpayments recovered through authorised deductions from an employee's next available pay are excluded from this calculation.

12. Education Payroll does not have the levers to fully influence this measure as overpayments can be influenced by other factors such as information provided by schools and debt recovery processes. We work closely with schools and the Ministry to recover outstanding amounts.

From 2026–27, a total overpayment balance standard will no longer apply. Education Payroll will continue to monitor and report on this measure.

13. These are new measures that have been introduced with effect from 2026–27 to provide a clearer view of overpayments caused by Education Payroll. These focus on both the value and percentage of new overpayments within Education Payroll’s control.

Prior period results are calculated based on the 2026–27 measure to enable comparison over time.

SUSTAINABLE AND SECURE ORGANISATION

We follow smart, secure and sustainable practices.

Year ended 30 June Performance measure	Actual 2024–25	Estimated 2025–26	Standard 2026–27
The number of future-proofing or sustainability-related issues identified as high priority or above in the annual audit	0	0	0
Number of preventable cyber security-critical incidents	0	0	0
Recommendations from the National Cyber Security Centre relating to cyber security-critical incidents that have been implemented	100%	100%	100%

SALARY ASSESSMENT

We assess teachers’ qualifications and experience to set their correct salaries.

In 2025–26, we received approximately 6,000 requests for assessments (6,300 in 2024–25).

Accuracy

Year ended 30 June Performance measure	Description	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Notification of errors related to salary assessment determinations	Salary assessments do not result in overpayments	99.78%	99.80%	99.50%

Timeliness

Year ended 30 June Performance measure	Description	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Salary assessments processed on time	Assessments processed within 15 working days from date of receipt	99.34%	99.70%	99.50%

RESPONSIVE SERVICE

We promptly deliver newly agreed entitlements for school employees.

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

Year ended 30 June Performance measure	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Implement employment agreements within three pay periods of a change impact assessment being approved by the Ministry, unless a specific alternative timeframe is agreed (14)	N/A	100%	100%

14. In 2025–26, a significant number of the 14 collective agreements had pay-impacting changes or variations following the settlement of these agreements in quick succession.

The measure description has been amended to reflect staged implementation agreed with the Ministry and unions, allowing timeframes to be based on complexity and agreed delivery.

STAFF ENGAGEMENT

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

Year ended 30 June Performance measure	Actual 2024–25	Estimated 2025–26	Standard 2026–27
Staff engagement survey (Kōrero Mai) – employee experience (average score out of 10)	7.8	7.8	7.9

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. Actual financial results achieved for the forecast period are likely to vary from information presented. 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 2026 and are based on information available at that time.



Naomi Ferguson QSO

Board Chair
Education Payroll Limited



David Skinner

Chair of Audit and Risk Committee
Education Payroll Limited

Assumptions

The prospective financial statements are based on the following assumptions.

Revenue and expenditure 2026–27

The prospective financial statements are based on a forecast year-end deficit of \$1.835 million for 2025–26, largely due to a \$4.106 million impairment of technology development assets, aligned to a change in technology strategy.

We returned \$1.2 million in efficiency savings to Vote Education via a reduction in our service fee to the Ministry of Education in 2024–25 and 2025–26. This reduction will also apply for the 2026–27 year. A new Master Services Agreement, including a review of our service fee, will be negotiated before the current agreement expires on 30 June 2027.

The Ministry provided \$7.7 million in initial funding to support early planning and proof-of-concept work for a proposed payroll upgrade. The majority of this funding was spent over the past two years, with only a small amount carried forward into 2026–27. As a result, revenue in 2026–27 is lower than in 2025–26.

We are forecasting increased costs driven by inflation, the Consumers Price Index (CPI), maintenance and development of our core payroll system and additional cybersecurity requirements. We will prioritise our spending to manage these pressures while mitigating operating risks. Where possible, we will do this within our operating baseline but from time to time the Board will approve the use of reserves to manage operating risk and support sustainable payroll service delivery. As a Public Benefit Entity, Education Payroll does not generate a profit.

The following assumptions have been applied in the preparation of this budget:

- 2.0% inflation for salaries and related personnel expenses
- 2.0% CPI for all other expense categories
- depreciation on intangible assets assumes useful lives of up to 16 years.

Capital budgets

The 2026–27 capital budget of \$3.895 million includes \$3.108 million for core technology infrastructure improvements, EdPay functionality improvement, capital work related to change requests received from the Ministry of Education and \$0.787 million for investment in property, plant and equipment.

We will continue to allocate resources to de-risk payroll service delivery, addressing known compliance issues, continuing the development of EdPay and investing in our core technology infrastructure. This does not include additional funding required for payroll upgrade or replacement.

Prospective statement of comprehensive revenue and expenses

For the year 30 June 2027

Year ended 30 June	Notes	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000
Revenue				
Sales of services to government	(1)	37,046	37,868	36,428
Interest received	(1)	500	473	463
Total revenue		37,546	38,341	36,891
Expenses				
Personnel expenses		20,535	18,007	19,530
Third-party support		1,025	3,786	2,924
Corporate expenses		595	549	603
Auditor's remuneration		109	112	114
Directors' remuneration		158	161	174
Travel and entertainment		20	19	28
Accommodation and facilities		888	884	888
Information and communications technology costs		9,660	8,642	8,606
Depreciation, amortisation and impairment	(5)	4,407	8,016	4,018
Total operating expenses		37,397	40,176	36,885
Non-operating expenses				
Total non-operating items		–	–	–
Total expenses		37,397	40,176	36,885
Total surplus/(deficit) for the period		149	(1,835)	6
Total comprehensive income		149	(1,835)	6

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

Prospective statement of financial position

As at 30 June 2027

As at 30 June	Notes	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000
Current assets				
Cash and cash equivalents	(2)	12,794	17,698	16,819
Receivables from exchange transactions	(3)	4	2	2
Prepayments		1,573	1,411	1,438
Total current assets		14,371	19,111	18,259
Non-current assets				
Property, plant and equipment	(4), (12)	1,089	1,210	1,588
Intangible assets	(6), (11)	27,919	24,800	24,298
Work in progress	(7)	4,301	2,500	2,500
Total non-current assets		33,309	28,510	28,386
Total assets		47,680	47,621	46,645
<i>Represented by:</i>				
Current liabilities				
Accruals and payables	(8)	1,193	1,256	1,256
Employee entitlements	(9)	1,669	1,786	1,785
Income in advance		15	981	–
Total current liabilities		2,877	4,023	3,041
Total liabilities		2,877	4,023	3,041
Net assets		44,803	43,598	43,604
Shareholder's funds				
Capital contributions	(10)	25,520	25,520	25,520
Retained earnings		19,283	18,078	18,084
Total shareholder's funds		44,803	43,598	43,604

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

Prospective statement of cash flows

For the year ended 30 June 2027

Year ended 30 June	Note	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000
Cash flows from operating activities				
Receipts from sales to the Ministry		32,539	34,169	35,447
Receipts from interest		500	473	463
Cash inflows from operating activities		33,039	34,642	35,910
Cash flows from investing activities				
Payments to suppliers		(12,717)	(14,402)	(13,365)
Payments to employees		(20,273)	(17,962)	(19,530)
Cash outflows from operating activities		(32,990)	(32,364)	(32,895)
Net cash inflows from operating activities		49	2,278	3,016
Cash flows from investing activities				
Payments from investment in tangible and intangible assets		(4,340)	(3,254)	(3,895)
Cash outflows from investing activities		(4,340)	(3,254)	(3,895)
Net cash outflows from investing activities		(4,340)	(3,254)	(3,895)
Cashflows from financing activities				
Cashflows outflows from financing activities		–	–	–
Net cash outflows from financing activities		–	–	–
Net increase/(decrease) in cash and cash equivalents		(4,291)	(976)	(879)
Cash and cash equivalents at beginning of year		17,085	18,674	17,698
Cash and cash equivalents at end of year	(2)	12,794	17,698	16,819
<i>Represented by:</i>				
Cash at bank		12,794	17,698	16,819
Total cash position		12,794	17,698	16,819

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

Prospective statement of changes in equity

For the year ended 30 June 2027

	Budget	Forecast	Budget
	2026	2026	2027
	\$000	\$000	\$000
Opening balance as at 1 July	44,654	45,433	43,598
Movement:			
Total comprehensive income for year	149	(1,835)	6
Balance as at 30 June	44,803	43,598	43,604

Education Payroll capital expenditure

For the year ended 30 June 2027

	Budget	Forecast	Budget
	2026	2026	2027
	\$000	\$000	\$000
Property, plant and equipment	540	448	787
Intangible assets	3,800	2,806	3,108
Total	4,340	3,254	3,895

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

5. NOTES TO THE FINANCIAL STATEMENTS

Reporting entity

Incorporated in 2014 under the Companies Act 1993, Education Payroll Limited is a Crown-owned company, listed on Schedule 4a of the Public Finance Act 1989 and subject to the Crown Entities Act 2004, the Official Information Act 1982, the Ombudsman Act 1975 and the Public Finance Act 1989. It aims to provide accurate and timely payroll services to the Ministry and the education sector. As a Public Benefit Entity (PBE) for financial reporting, it does not operate to generate a financial return.

Basis of preparation

The prospective financial statements are for the period from 1 July 2026 to 30 June 2027. They are prepared on a going concern basis with consistent accounting policies applied throughout the year.

Statement of compliance

The prospective financial statements comply with the Financial Reporting Act 2013, which requires compliance with the generally accepted accounting practice in New Zealand (NZ GAAP). They also adhere to *New Zealand Reporting Standard No. 42 – ‘Prospective Financial Statements’* and the statements comply with Tier 1 PBE standards.

Budget figures

Education Payroll’s Statement of Performance Expectations for the 2026–27 budget was adopted by the Board on 24 June 2026 and published on 30 June 2026.

Basis of measurement

The prospective financial statements are 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, rounded to the nearest thousand dollars (\$000) unless stated otherwise.

Changes in significant accounting policy

Accounting policies remain unchanged since 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 outlined below have been consistently applied in the preparation of these prospective financial statements.

(1) Revenue

Sales of services to government

Payroll services provided to the Ministry are recognised as exchange transactions.

Unbilled revenue at the end of the financial year is recognised as receivables in the prospective statement of financial position.

Revenue from the provision of payroll services is recognised when:

- significant risks and rewards of the services have passed to the buyer
- services have been delivered
- the amount can be measured reliably
- 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 over time.

Foreign currency transactions

Foreign currency transactions are converted to the functional currency at the spot exchange rate (the exchange rates prevailing at the dates of the transactions).

Foreign exchange gains and losses from settling these 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 does not transfer substantially all the risks and rewards of asset ownership to the lessee.

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

(2) Cash and cash equivalents

Cash and cash equivalents are short-term, liquid investments that are easily convertible to cash with minimal risk of value change.

(3) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments, not quoted in an active market. After initial recognition, they are measured at amortised cost, less any impairment allowance. A provision for impairment is made where there is evidence that Education Payroll will not be able to collect all the receivables according to the original terms. When this occurs, the receivables are recorded at amortised cost less the impairment for provision. When the receivables are uncollectable, they are expensed in the prospective statement of comprehensive revenue and expenses.

Financial liabilities

Education Payroll's financial liabilities include trade and other creditors.

(4) Property, plant and equipment

Property, plant and equipment asset classes include office equipment, furniture and fittings, information and communications technology (ICT) equipment and leasehold improvements. Property, plant and equipment are recorded at cost less accumulated depreciation and any impairment losses. Cost includes all expenses 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 its cost can be measured reliably. Assets acquired at no or nominal cost will be recorded at fair value at the date of acquisition when control of the asset is obtained. Subsequent costs 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 costs can be measured reliably. Servicing costs for

property, plant and equipment are recognised in the prospective statement of comprehensive revenue and expenses as they are incurred.

Gains and losses on disposals

Gains and losses on disposals are determined by comparing the proceeds of disposal with the asset's carrying amount. Gains and losses on disposal are reported net in the surplus or deficit.

(5) Depreciation

Depreciation on property, plant and equipment (excluding work in progress) is calculated on a straight-line basis from when the asset is in the location and condition necessary for its intended use. This basis allocates the cost or value of the asset over its estimated useful life. The depreciation method, the estimated useful lives and residual values of property, plant and equipment are reviewed annually for appropriateness.

Estimated useful lives for depreciation calculation are:

- office equipment 2 to 6 years
- ICT equipment 2 to 10 years
- leasehold improvements 3 to 9 years
- furniture and fittings 3 to 12 years.

(6) Intangible assets

Software acquisition and development

Software is classified as 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 asset. 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
- 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 expenditures not meeting the criteria are expensed. Estimated useful lives for the calculation of amortisation are:

- software licenses 2 to 14 years
- intangibles up to 16 years.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts that provide 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.

(7) Work in progress

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

(8) Accruals and payables

Creditors and other payables are non-interest bearing and are normally settled within ten days, so their carrying values are close to their fair value.

(9) Employment entitlements

Employment entitlements expected to be settled within 12 months of balance date are measured at their nominal value based on current pay rates.

These include salaries and wages accrued up to balance date and annual leave earned but not yet taken by balance date.

(10) Equity

Equity is the shareholder's interest in Education Payroll, measured as total assets minus total liabilities.

Goods and services tax

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

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 in the receivables or payables in the prospective statement of financial position. Commitments and contingencies are disclosed exclusive of GST.

Income tax

Education Payroll, a Crown-controlled company under the Income Tax Act 2007, is exempt from the payment of income tax. Accordingly, no provision for income tax has been made.

Cost allocation

Education Payroll delivers a single output: the schools' payroll service. Its full cost is measured on a full accrual accounting basis.

Reportable outputs

Education Payroll confirms that it did not provide any outputs that fall outside the reportable class of outputs, as required by Section 149E(1)(c) of the Crown Entities Act 2004.

Critical accounting estimates and assumptions

These prospective financial statements are based on estimates and assumptions. They are derived from past experiences and other relevant factors that forecast the revenue, expenses, assets and liabilities at the end of the reporting period.

The significant assumptions made in these prospective financial statements are:

- funding for payroll services delivered by Education Payroll continues through a Master Services Agreement 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.

(11) Intangible assets recognition and measurements

Determining values is subjective and requires 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.

Each year, intangible assets are evaluated to determine if there is an impairment, which occurs when their ability to contribute to future economic benefits is reduced.

Determining an asset's useful life involves professional judgement. It is essential for product owners to provide guidance on suitable amortisation periods for asset components, potentially seeking advice from subject matter experts, such as engineers or developers, to ensure accuracy and adherence to best practices.

The useful lives of Education Payroll's intangible assets are assessed during the year for appropriateness.

Developed software costs include external costs, wages and overheads that are directly attributable to the software development. Costs 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.

(12) 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. This process involves assessing the asset's condition, how long Education Payroll expects to use it and expected proceeds from disposals or write off of these assets.

Incorrect estimates affect the depreciation expense recognised in the surplus or deficit, as well as the carrying amount of the asset in the prospective statement of financial position.

Provisions

Provisions for historic liabilities are raised where clear evidence exists. Calculations are based on past experiences and the impact of the economic conditions.

Standards and interpretations issued but not yet effective

There are no standards or interpretations that are issued but not yet effective that will materially affect Education Payroll's financial position, performance and disclosures.



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