



Education Report: Drawing down the Education Payroll Limited (EPL) Core Services Contingency Funding

To:	Hon Grant Robertson, Minister of Finance Hon Chris Hipkins, Minister of Education		
Date:	25 September 2020	Priority:	Medium
Security Level:	In Confidence	METIS No:	1236695
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Messaging seen by Communications team:	N/A	Round Robin:	Yes

Purpose of Report

This paper confirms that the Education Payroll Limited (EPL) financial review is now complete, and seeks your joint approval to draw down the tagged operating contingency for Additional Education Payroll Limited Core Services Funding that was set aside in Budget 2020 [CAB-20-MIN-0155.12 refers].

Summary

- Funding was sought in Budget 2020 to cover cost increases for EPL's core services. This took into account the increased volume of operational work.
- On 6 April 2020, Cabinet agreed to set aside a tagged operating contingency of \$1.9 million per annum to maintain the current payroll service carried out by EPL [CAB-20-MIN-0155.12 refers].
- Joint Ministers (Minister of Finance and Minister of Education) were authorised to draw down this contingency, subject to the outcome of an independent financial review.
- The Ministry of Education contracted PricewaterhouseCoopers (PwC) to undertake a financial review of EPL and this confirmed EPL's long-term funding requirements and informed the fee review.
- This paper seeks approval to draw down the tagged contingency to meet the increased costs of EPL core services ahead of the 30 June 2021 contingency expiry date.

Recommended Actions

The Ministry of Education recommends that you jointly:

- a. **note** that on 6 April 2020 [CAB-20-MIN-0155.12 refers], Cabinet established a tagged contingency as follows:

Operating Contingency

Schools Payroll - Additional Education Payroll Limited Core Services Funding

Initiative Name	\$m - increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Contingency: Schools Payroll - Additional Education Payroll Limited Core Services Funding	-	1.900	1.900	1.900	1.900
Total Operating	-	1.900	1.900	1.900	1.900

10. **noted** that amounts in the tagged contingency for the “*Schools Payroll – Additional Education Payroll Limited Core Services Funding*” are intended to maintain the current payroll service carried out by Education Payroll Limited following the outcome of a financial review due to be completed in April 2020;
11. **agreed** that the tagged contingency can be drawn down only once the outcome of the financial review noted in paragraph 10 above is confirmed;
12. **authorised** the Minister of Finance and the Minister of Education to jointly approve any drawdowns of the contingency;
13. **agreed** the expiry date for the “*Schools Payroll – Additional Education Payroll Limited Core Services*” tagged contingency will be 30 June 2021.

- b. **agree** that, as the financial review has been satisfactorily completed, the tagged contingency funding to cover the increased costs of The Education Payroll Limited core services and address volume increases can now be drawn down.

Agree / Disagree

Agree / Disagree

- c. **approve** the following changes to appropriations for the current payroll service carried out by Education Payroll Limited in light of the completed financial review and with support from the Treasury, and this would have a corresponding impact on the operating balance:

Vote Education Minister of Education	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25& Outyears
Multi-Category Expenses and Capital Expenditure: Primary and Secondary Education MCA Departmental Output Expense: Support and Resources for Education Providers (funded by revenue Crown)	1.900	1.900	1.900	1.900	1.900

Agree / Disagree

Agree / Disagree

- d. **agree** that the proposed changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Agree / Disagree

Agree / Disagree

- e. **agree** that the changes to appropriations above will be charged against the Schools Payroll - Additional Education Payroll Limited Core Services Funding operating contingency, which will close the contingency.

Agree / Disagree

Agree / Disagree

- f. **agree** to **proactively release** this Education Report as part of the next publication, withholding any information in line with the provisions of the Official Information Act 1982.

Agree / Disagree



Kim Shannon
Head of Education Infrastructure
Ministry of Education

25/9/20



Hon Grant Robertson
Minister of Finance

16/10/2020



Hon Chris Hipkins
Minister of Education

14/10/20

Background

- 1 Education Payroll Limited (EPL) is a critical government service for the largest workforce in the country, paying on average 94,000 teachers and support staff working in around 2,500 schools every fortnight.
- 2 Since July 2017, EPL's fee has been fixed at \$27.4 million per annum.
- 3 Under the Master Services Agreement (MSA) between the Ministry and EPL, there was provision for the annual fee paid to EPL to be reviewed on 1 June 2020. Future fee reviews are provided for every two years thereafter.

Review of EPL fees

- 4 In November 2019, EPL signalled the need to review its operating model and the information on costs incurred, compared to the original 2016 forecasts.
- 5 The Ministry contracted PricewaterhouseCoopers (PwC) to conduct an independent financial review of EPL.
- 6 The purpose of the financial review was to identify EPL's longer-term funding requirements and provide advice on an appropriate amount of funding to address any increased costs in providing the core payroll services. The outcomes of this review were not however finalised prior to the confirmation of Budget 2020.

Fees funding held in contingency

- 7 On 6 April 2020, Cabinet agreed to a tagged contingency of \$1.9 million operating funding per annum [CAB-20-MIN-0155.12, paragraphs 10-13 refers] to meet the potential increase in costs of EPL's core payroll services.
- 8 Cabinet authorised the Minister of Finance and Minister of Education to jointly draw down this contingency, subject to the outcome of the financial review.

Confirmation of need

- 9 The PwC financial review was finalised on 28 August 2020. It forecasts a shortfall in core services operating costs and confirmed that an increase in funding will be required to provide the core payroll services in the 2020/21 and 2021/22 financial years. It also forecast increasing shortfalls in subsequent years that may require future adjustments.
- 10 The review confirmed that the actual operations of EPL differ from those envisaged in the original 2016 Detailed Business Case, particularly around necessary expenditure on in-house technology development, resourcing levels and other operating costs.
- 11 As a result of the financial review, the Ministry has agreed to a fee increase of \$1.9 million per annum (an increase of 2.3% per annum from the original contract) and therefore is seeking to draw down the entire available contingency.

Risks

- 12 As forecast in the PwC review, any delays to the drawdown may result in EPL being unable to deliver their core services. The Budget bid noted the significant risk to the school payroll service if compromises were made due to funding constraints.
- 13 If EPL fails to achieve the benefits specified in the detailed business case, then this may result in the need for a significant funding adjustment in the future.

Financial Implications

- 14 An independent financial review of EPL and the costs of core payroll services has confirmed a shortfall in funding excluding capital investment of \$1.542 million. By agreeing to a fee increase of \$1.9 million per annum we have provided sufficient funding to enable EPL to commence investigation, design and scoping work associated with elements of proposed capital expenditure work
- 15 Consequently, this paper proposes an increase to output expense Support and Resources for Education Providers (Primary and Secondary Education MCA) funded from the drawdown of the Schools Payroll – Additional Education Payroll Limited Core Services Funding tagged contingency.
- 16 The proposed drawdown will exhaust the tagged contingency set up in April 2020 for this purpose.
- 17 The financial review also identified that funding may be required to address future technology upgrades in subsequent years.

Proactive Release

- 18 It is intended that this Education Report can be proactively released as part of the next publication, withholding any information in line with the provisions of the Official Information Act 1982.