

The Treasury

Annual Letters of Expectations 2022/23 Information Release

September 2022

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[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Hon Chris Hipkins

MP for Remutaka

Minister for COVID-19 Response

Minister of Education

Minister for the Public Service

Leader of the House



15 December 2021

Sandi Beatie
Chair
Education Payroll Limited
P O Box 12 141 Thorndon
WELLINGTON 6144
[23]

Ref: CH10943

Dear Sandi

2022/23 OWNER EXPECTATIONS FOR EDUCATION PAYROLL LIMITED

I am writing to outline the matters that we expect your board to address in the 2022/23 business planning round and work programme.

Government priorities and the response to COVID-19

The Government has three goals for its term: to keep New Zealanders safe from COVID-19, to accelerate the recovery and rebuild; and to tackle foundational challenges.

The response to COVID-19 remains of central importance in the coming year. Investing in critical infrastructure and public services will be important to our economic recovery, along with a focus on renewable energy, waste reduction, sustainability and pursuing carbon neutrality.

Crown-owned companies and entities through their operations play an important role in supporting the response to COVID-19 and the social and economic recovery. Responsible management of assets and finances, including careful control of debt, capex and investments are part of the contribution Education Payroll Limited (EPL) makes to the Government's goals.

We wish you every success with your endeavours in the coming year and thank you for your contribution to laying the foundations for a more sustainable and equitable future.

This letter contains the following information:

- Ministers' specific expectations for EPL;
- general governance expectations (**Annex 1**);
- timeline for the 2022/23 business planning process and governance information (**Annex 2**).

Entity-specific expectations

Education Payroll Development Programme

We expect that EPL will continue to advance the 10-year Education Payroll Development Programme (EPDP) and report as agreed on progress and benefits. This includes managing technology risks and software upgrades, as well as realising the benefits as per the 2016 Detailed Business Case and the Master Services Agreement (MSA) and Statements of Work with the Ministry of Education (the Ministry).

Ongoing delivery of the schools' payroll

We expect EPL will:

- continue to effectively deliver schools payroll as a financially sustainable company and continue to operate within the contract terms and deliver the services in accordance with the MSA, agreed Statements of Work and working closely with the Ministry while delivering value for money to the Crown;
- continue taking any necessary measures to prevent data or cyber security breaches and to comply with recommendations from the National Cyber Security Centre;
- ensure that it provides adequate and effective assurance on schools payroll performance based on a robust control environment, consistent with good industry practice, including addressing schools payroll risks;
- work with the Ministry to achieve the objectives of, and complete, the Performance Measurement Framework and ensure requisite performance reporting is in place;
- implement collective agreements and pay equity claim settlements within agreed timeframes and in accordance with existing change request processes with the Ministry; and
- work with the Ministry to ensure adequate skilled resource is available to deliver on all current and contemplated work.

Government engagement

EPL should continue effectively engaging with the Government, including:

The Treasury

- to provide regular financial information as per the Owner's Expectation document and as required;
- to provide early indication of any risks to the repayment and phasing of the Crown loan facility;

The Ministry

- as it progresses work to address schools' payroll non-compliance with the Holidays Act (2003);

The Treasury and the Ministry

- as EPL's organisational strategy and the Ministry's potential options for future delivery of the schools' payroll, including consideration of the future form of the education payroll service, are developed;
- providing early warnings if there are any anticipated or actual delays in implementation of the EPDP and information on the likely impact on benefits realisation;

The Treasury, the Ministry and other agencies:

- to inform them of any material impacts of proposals (initiated either by EPL or by the agencies) that may affect the education sector or delivery of the MSA with the Ministry; and
- as part of an integrated approach to achieve the Government's policy objectives in the education sector.

General governance expectations

We regard strong board governance as critical to the performance and success of the Crown's companies and entities. The [Owner's Expectations](#) sets out Ministers' expectations on matters for board oversight such as information-sharing and engagement with the Treasury, board evaluations, thresholds for consultation or approvals for significant investments, commercial valuations, capital structure and dividends, and timeframes for reporting and business planning documents.

Further general expectations you are asked to consider are set out in **Annex 1**.

Further information

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss Ministers' expectations in more detail. If you have any questions, please contact Matthew Beilan [39]. Alternatively, you can contact Shelley Hollingsworth, Manager, Commercial Performance [39].

Yours sincerely



Hon Chris Hipkins
Minister of Education
on behalf of shareholding Ministers

cc Arlene White, CEO, Education Payroll Limited, [23]

Annex 1

General Governance Expectations

Enduring letter of expectations

Ministers expect all boards to be cognisant of the Government's 2019 [Enduring letter of expectations](#) to all statutory Crown entities, which asks that boards and their agencies

- Support a unified value-based government for all New Zealanders;
- Support future-focussed Māori Crown relations; and
- Contribute to improving wellbeing.

Workforce Policy Statement and Public Service Pay Gap Action Plan

The [Government Workforce Policy Statement](#) (Workforce Policy) sets out the Government's expectations about public sector agencies management of employment relations, including of statutory entities and Crown entity companies. This policy also emphasises the importance of pay restraint in the COVID-19 environment and the fiscal context of the Government.

Consistent with the Government's support for diversity, gender balance and wider ethnicity on boards, boards are encouraged to support diversity and inclusion in the workplace and in leadership teams. On 15 November 2021, the Government launched The [Public Service Pay Gap Action Plan](#) (Action Plan), which aims to help close pay gaps and create fairer workplaces for all employees.

You and your board are encouraged to consider the relevance of the Workforce Policy and the *Public Service Pay Gap Action Plan* for EPL.

Wellbeing approach and Carbon Neutral Government Programme

The Government's wellbeing approach is based on the [Treasury's Living Standards Framework](#), which considers a broad range of impacts over 12 domains for our individual and collective wellbeing, our institutions and governance, and the wealth of Aotearoa New Zealand, now and into the future. Boards should consider and reflect the broader impact of their decisions and initiatives in planning and performance reporting.

In pursuit of our carbon reduction ambitions, the Carbon Neutral Government Programme (CNGP) has been set up to accelerate the reduction of emissions within the public sector. We encourage EPL to support the Government by joining with businesses and communities already leading the way to reducing their emissions.

Board evaluations and strengthening the director pipeline

Board evaluations help boards to improve performance and should take place annually (subject to the exceptions in the [Owner's Expectations](#)) and ideally be conducted by an independent evaluator.

Along with skills matrices, evaluations contribute to the Treasury's advice to Ministers on board composition and so should be shared with the Treasury.

In addition, we have a general expectation that you will engage a 'Future Director' as an observer of the board, where possible, to grow the pipeline of new and diverse director talent.

Senior Executive Remuneration

Within the overall context of public sector pay restraint, Ministers expect that boards will ensure that senior management remuneration is appropriately linked to performance and set at a level sufficient to attract and retain the necessary skills within the executive to enable Crown companies and entities to operate successfully.

Boards of SOEs, and Schedule 4A and Crown entity companies have separately received Ministers' April 2021 expectation that disclosure in annual reports meets the NZX Corporate Governance Code, most notably recommendation 5.3. If disclosure to this standard is not possible, the annual report is expected to explain why this is the case.

Annex 2

Timetable for the Business Planning Process for 2022/23

Table 1: Summary timetable for the Business Planning Process

Due by	Key Action
January / February	The Treasury to discuss the Letter of Expectations with the Chair
28 February	Board sends Strategic Issues letter to Ministers
29 April	Board submits draft Statement of Intent (SOI) if required, Statement of Performance Expectations (SPE) and business plan
27 May	Board provides advice on: <ul style="list-style-type: none">• whether special fees are sought for 2022/23;• the professional development spends in 2021/22 and the proposed professional development budget for 2022/23; and• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.
30 June	Board delivers final SOI (if required) and SPE to shareholding Ministers
As soon as practicable after delivery of the final SOI (if required) and SPE to Ministers	Entity to publish SOI (if required) and SPE on its website

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter**, by **28 February 2022** in response to the Letter of Expectations. Should your entity wish to engage with shareholding Ministers to seek clarification around their expectations, we would ask that you advise the Treasury as early as possible of such intentions.

Entities are expected to provide shareholding Ministers with a draft SOI (if required), SPE and Business Plan, consistent with the expectations as detailed in this letter, by no later than **29 April 2022**.

The final SOI (if required) and SPE should be delivered to shareholding Ministers on or before **30 June 2022**.

Shareholding Ministers should be alerted as soon as possible if any of these deadlines cannot be met.

Further information is available in the [Owner's Expectations](#).