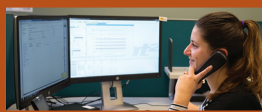
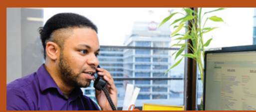
2017 ANNUAL REPORT





EDUCATION PAYROLL LIMITED

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Published 30 September 2017
Education Payroll Limited

BOARD CHAIR'S FOREWORD

We are pleased to present our performance, achievements and financial statements for another year, ending 30 June 2017.

Since our last Annual Report EPL continues to make significant improvements in the delivery of the payroll service to schools and school employees. We continue to pay teachers and support staff accurately and on time.

This year we focused on continuing to embed positive changes started in 2015/16, when we trialled new ways of working with schools. EPL fully implemented a school centred account management model which provided every school with their own dedicated payroll adviser. Feedback from schools was extremely positive and continues to be.

We met all of our delivery performance targets and delivered a better End of Year/Start of Year result than previous years. Our customer satisfaction results confirm this showing significant improvements in the overall quality of the service delivery and support schools receive from EPL.

We completed the detailed business case, started in 2015/16, which sets the direction for long term sustainability and began work to support a programme of development and improvement over the coming two years.

Our success this year was in addition to managing the recovery of services as a result of the Kaikoura earthquake and maintaining service performance with ongoing disruptions to our accommodation.

A core component of our success is our people. We continue to provide an environment that fosters engagement, development and opportunity.

The Board would like to thank the Chief Executive, his leadership team and all EPL staff for their on-going efforts over the past year.

EPL is looking forward to the year ahead as we continue improving the overall payroll service and ensuring its future sustainability.

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

Murray Jack
Board Chair

14 September 2017

Cathy Magiannis
Board Director

14 September 2017

OUR BUSINESS

Education Payroll Limited delivers school centred education payroll services.

Every fortnight we make sure the schools' payroll is delivered accurately and on time. This includes managing third party payments, such as ACC, Kiwisaver, and student loans. The fortnightly cycle forms part of a complex annual cycle of payroll events matched to the school calendar year.

A complex business to be in

The schools' payroll is the **largest in New Zealand** and one of the top **10** in Australasia. We pay around **120,000** teachers and support staff – that's the biggest employee group in New Zealand.

Education employees work in around **2,500** schools.

We work with over **6,700** payroll administrators in those schools.

Each pay period (fortnight) we manage about **$176 million**.

Every year we manage payments valued at over **$4.6 billion** per annum. That's about **five per cent** of the total government expenditure.

The schools' payroll covers **14** collective agreements, with a possible **1,500** unique pay rates and **10,000** possible permutations every pay run.

We processs changes for around **13%** of school employees (over **15,000** people) every pay run.

OUR SERVICES

We deliver an efficient, integrated payroll service to schools.

The service is delivered on behalf of the Ministry of Education. We have a Services Agreement with the Ministry of Education to deliver payroll services, which includes performance targets relating to accuracy, timeliness and quality.

Our services include:

- Providing guidelines and communications to schools to support them to fulfil their payroll responsibilities
- Processing pay instructions received from school payroll administrators
- Answering queries from schools about their payroll
- Providing reports to schools on payroll activity
- Providing instructions for direct crediting of payroll
- Providing employees with a payslip
- Maintaining individual and schools payroll records
- Providing instructions for payments to third parties involved in payroll, such as IRD and ACC
- Recovery of overpayments
- Conducting salary assessments
- Processing of periodic payroll events.

In addition we also provide the Ministry of Education with a range of reports on schools' payroll activity.

Our services are delivered from our Wellington and Christchurch offices.

A FORTNIGHT IN THE LIFE OF EPL

EVERY FORTNIGHT EPL RECEIVES ABOUT:

13,300 instructions from school administrators

5,300 phone calls

895 emails

THE MAIN REQUESTS WE GET ARE TO MANAGE:

- Pay details
- Position details
- Pay rates
- Leave
- Allowances and grants

STATEMENT OF PERFORMANCE

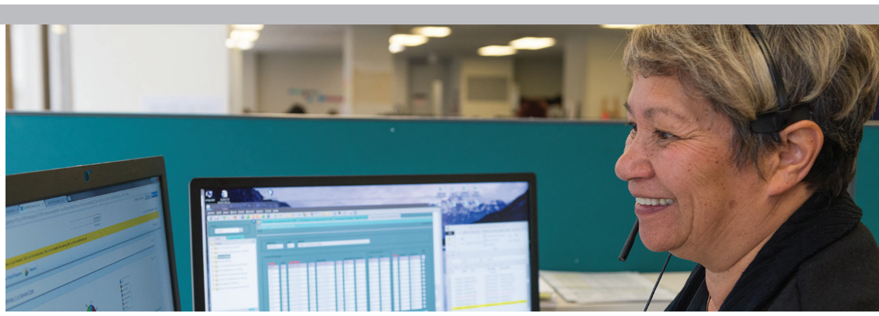
For the 2016/17 financial year EPL's performance was guided by the 2016/17 Statement of Performance Expectations and the 2016-2020 Statement of Intent.

EPL delivers one output which is the effective delivery of payroll services to end users. EPL has a clear focus on providing an accurate, reliable and timely payroll. We measure and evaluate our performance on how well we are delivering the payroll and how we are delivering on our work programme.

The output draws on revenue from a Services Agreement with the Ministry of Education.

Period ended 30 June 2017	2017 Actual $000	2017 Budget $000	2016 Actual $000
Total revenue	25,849	24,757	27,575
Total expenditure	26,845	24,757	27,694
Surplus/(deficit)	**(996)***	**0**	**(119)**

* The variation between a budgeted breakeven position and the actual deficit of $996,000 relates to costs associated with EPL's recovery of services and accommodation in the wake of the Kaikoura earthquake. The costs related predominantly to accommodation relocations, increased rental costs and asset write offs. EPL are seeking insurance recoveries for earthquake related costs.



We measure our success with the following key performance indicators:

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2016/17	STANDARD 2016/17	ACTUAL 2015/16
ACCURACY				
All payments to eligible payees (permanent and temporary employees) will be accurately calculated	% of employees paid excluding requests made, by exception, to correct payments to employees	99.8%	99.5%	99.8%
Operational accuracy of the fortnightly payroll	% of accurate payroll instructions submitted by a school, which are received on time and processed by EPL within the appropriate pay period, excluding requests made, by exception, to correct payments to employees	99.8%	99.5%	99.8%
TIMELINESS				
Timely processing of payroll instructions submitted by schools	% of accurate payroll instructions submitted by a school that affect the fortnightly pay and are displayed on the school's fortnightly payroll report, as expected by the school, and processed by EPL within the appropriate pay period	Achieved 99.5%	99.5%	99.5%
Percentage of payroll payments made on or before advised pay dates	Bank files are provided on the day expected to enable payments to be made	Achieved 100%	99.5%	100%
QUALITY				
Customer satisfaction	% of survey respondents satisfied with the overall quality of the service delivery and support they receive from EPL	Achieved 70%	60%	Baseline established

We monitor over pay periods (not calendar dates). The figures are averages for the beginning of pay period 8 in 2016 (6 July) to the end of pay period 7 in 2017 (4 July).

OUR ACHIEVEMENTS

The 2016/17 year focused on improving our service to the education sector and continuing to implement a series of changes to provide a better service to our customers.

Our success in 2016/17 was in addition to managing the recovery of services as a result of the Kaikoura earthquake in November 2016. EPL maintained its performance during the relocation of the company directly after the earthquake and the ongoing disruption until new accommodation could be found.

FORTNIGHTLY PAY CYCLE

The fortnightly pay cycle touches all areas of EPL – from our payroll advisers entering payroll instructions and answering queries from schools to our technology team who support each pay run by ensuring the payroll system is maintained to the required standard.

In 2016/17 EPL has successfully managed the delivery of the pay accurately and on time for all fortnights.

END OF YEAR / START OF YEAR

Between October and March every year over 40% of school employees require changes to their payroll records. This period is called End of Year/Start of Year (EoY/SoY) and it happens at a time when schools are closed for the holiday period, holiday payments are being made, and a number of contract changes are being implemented. In addition school financial reporting is due at the end of March.

In 2016/17 the delivery of services across the EoY/SoY period was a further improvement across all performance metrics from 2015/16 and previous years. All key performance indicators were met during the whole EoY/SoY period, and overall we delivered improvements in all key metrics.

NOVOPAY FORTNIGHTLY PAY CYCLE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
		Day 1 Pay period begins	Day 2	Day 3	Day 4	Day 5
Day 6 **5.00 pm** Cut-off for instructions via form	Day 7	Day 8 **3.00 pm** Cut-off for online instructions	Day 9 **9.00 am** 1st draft SUE report available **Noon** Cut-off for SUE REPORT CORRECTION via NOV031 form	Day 10 **5.00 pm** Cut-off for online corrections	Day 11	Day 12 Termination pay run (final pay calculations)
Day 13 **9.00 am** 2nd draft SUE report available **11.00 am** Cut-off for STOP PAY ADJUSTMENT **Overnight** Pay run	Day 14 **9.00 am** Final SUE report available **10.00 am** Cut-off for FULL STOP PAY	**Midnight** Pay day New pay period begins				

Indicates a cut-off

EoY/SoY STATISTICS

EoY self-paced learning module - 689 individual users accessed the EoY module

1,666 times.

EoY eWorkshops –

131

sessions were held, covering 484 participants from 463 schools.

SoY self-paced learning module –

534

individual users accessed the EoY module

1,177 times.

SoY eWorkshops –

45 sessions

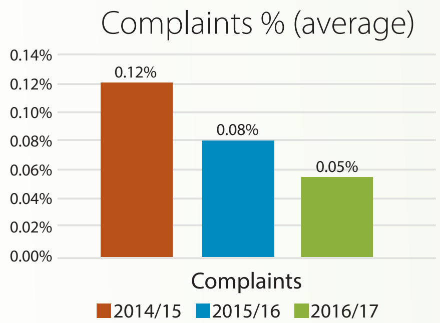
were held, covering 171 participants from 164 schools.

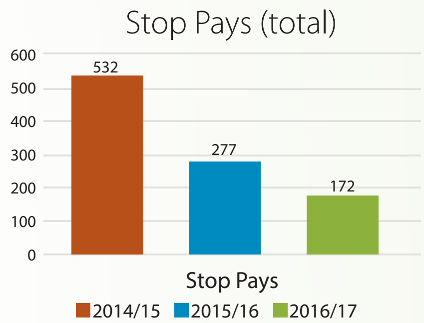
EoY completion –

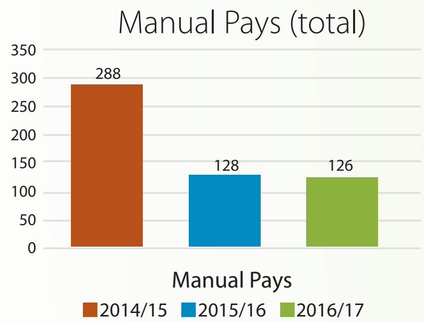
100%

of users completed EoY before the final deadline.

We measured the success of EoY/SoY process by the following indicators:







Note: Stop Pays are salary payments that have not been released due to incorrect pay details being recognised after the final payroll cut-off. Manual payments are out of cycle payment changes for employees who have been incorrectly paid in their most recent pay.

SUSTAINABLE BUSINESS

In 2015/16 EPL completed a strategic review to set a direction to ensure sustainability in the long terms while ensuring specific requirements of the Ministry and schools are met in the short term. In 2016/17 a Detailed Business Case was developed for the ongoing investment in the education payroll services. This was submitted to shareholding Ministers in October 2016.

The approved option in the business case includes a series of operational and technology investments to achieve compliance, deliver a new online, digital assisted service that meets the needs of users, and upgrade technology to reduce risks to a low level and extend the life for the foreseeable future.

The key features of the approved option in the business case include:

- Sustainable systems and infrastructure extending the life of the service from 2022 to 2030 and reducing near term risk;
- User friendly, school centred online system that makes it easier for school administrators and EPL to get it 'right first time';
- Future proofed architecture that is open and able to adapt to sector and payroll industry changes; and
- Compliance initiatives to deal with ongoing issues with legislation, employments agreements, payroll and workforce policies.

At the end of 2016/17 EPL was seeking investment funding to enable the implementation of the improvements outlined in the business case, which will be implemented via our Education Payroll Development Programme (EPDP) which will also incorporate the Ministry of Education's Holidays Act compliance requirements (funded by the Ministry). Decisions on funding are expected by the end of October 2017.

BETTER EVERY DAY

In 2016/17 EPL continued to embed the Better Every Day continuous improvement method for delivering change successfully across the business.

All leaders across the organisation were engaged from the beginning. They were immersed and involved in the change as early adopters. They ensured that Better Every Day was made a priority and happened in the work.

Selected staff were trained as Better Every Day practitioners who facilitated team work and communicated updates to the business. These practitioners were selected from across the business in order to provide cross functional insight and experiences into different business areas. Teams were established who continue to work on a number of initiatives including:

- Increasing online usage of Novopay within schools
- Improving Novopay forms
- Improving the service within the Debt Management Unit processes.

As a result of working in this new way, staff became engaged and felt accountable for their work. Their roles became enriched and they had a greater sense of control and autonomy. They wanted this approach to be successful as they enjoyed making changes to the service we provide.

We worked closely with the sector and users of the service to understand what they really wanted and what improvements would make the biggest difference for them.

School Centre Service Delivery Model
Using the Better Every Day approach a new School Account Team model was developed at the end of 2015/16 to provide a school centred delivery of services. This model was fully embedded by September 2016. It replaced a functional model which had been supporting schools.

Ten School Account Teams were formed consisting of a team leader and seven payroll advisors. Each advisor is multi-skilled in all facets of Novopay and supports a portfolio of schools, ranging from 20 to 50 schools per person. They are the 'go-to' person for school payroll staff.

The capability of staff was developed so that they could handle a wide range of transactions. The "Toyota approach" was used which reduced the time needed for staff to become competent in the range of payroll activities.

The whole of EPL was reorganised to support the School Centred Service Delivery model with teams refocussed on ensuring effective flow of work through Education Payroll.

The success of the model is shown with schools and the sector feeding back that the approach is working and they have confidence in EPL. Positive relationships have been built between EPL and the payroll staff in schools. Our staff like the model as they deal with people and not just transactions.

FEEDBACK ON THE SCHOOL CENTRED SERVICE DELIVERY MODEL

Karen Hadfield, Payroll Administrator, Manurewa High Auckland

"Before [the School Account teams] it was a difficult system. We got a different person every time. They didn't know the story behind what we were ringing about and had to keep referring to their notes and asking us to repeat the query. The processing time was much slower than now and it was a lot less personal. There was less accountability, people seemed reluctant to take ownership.

"We [now] find it really good. We get to have a working relationship with the person at the other end of the phone. When we ring in they say – "I remember that…". The team know what we are talking about."

"We would estimate processing time is about fifty per cent faster. If we are late with a form, or don't fill it in properly, the team will get back to us right away, before it would take days."

Leigh Cooke, St Patrick's College, Silverstream, Wellington

"In the past when you rang up the service desk you did not know who you would get or how familiar they were with Novopay. Their knowledge and experience was very varied. You would often speak to multiple people about the same issue and had to repeat the whole scenario all over again, or wait around in the office for them to phone back or email with the answer. It was very, very frustrating and we had little confidence in the information we were being given.

"Now we have a dedicated payroll adviser life is a lot easier. She knows our school. She knows us. She knows all about Novopay. We get an answer right away and we have a lot more confidence in the system. It is not only better for us as administration staff but it is better for school employees. Instead of them getting frustrated with us as they did before when they had to wait around for an answer to their payroll questions, now we can get an answer for them pretty much straight away and everyone is happy.

"I would say that it might save us 10-15 minutes per issue, due to not having to explain everything to someone new each time we call and not having to make follow up calls to make sure something has been actioned."

SCHOOL CENTRED SERVICE DELIVERY MODEL: BETTER EVERY DAY

The following measures illustrate the success of the school focused account management model:

Right the First time	7%	INCREASED
Value customer interactions	9%	INCREASED
Effort customer satisfaction	25%	INCREASED
Service customer satisfaction	27%	INCREASED
Staff capability	31%	INCREASED
New overpayments reduced	48%	INCREASED
Additional start of year staff costs	28%	REDUCED
Error indicating forms reduced	36%	REDUCED
End to end time	47%	REDUCED

VALUING OUR CUSTOMER

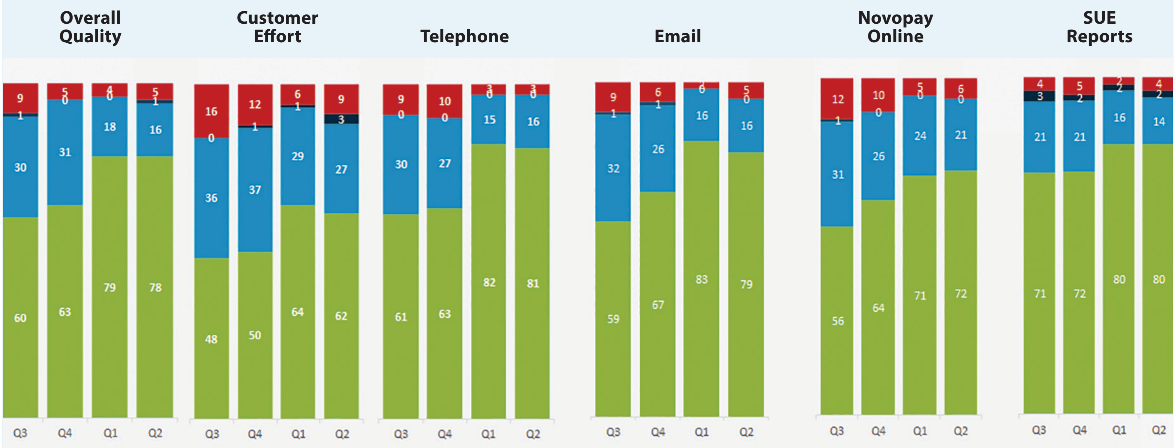
Customer Satisfaction

In 2016 EPL introduced a regular online customer satisfaction survey with authorised users of the schools' payroll, and ran two surveys in the 2015/16 year. In 2016/17 we improved on the first two surveys with a significant increase in the portion of users either satisfied with or neutral about their overall experience of working on the payroll for their school.

Every school is given an opportunity once during the year to respond to a survey.

The graph below is a snapshot of the results received from the four surveys conducted in 2016/17.

2017–Q1 and Q2 Customer Satisfaction Snapshot



Total Dissatisfied (0-3)
Unsure/NA
(4–6)
Total Satisfied (7–10)

Two areas of particular focus based on the survey results have been to work on increasing the quality and consistency of our response to queries both via e-mail and over the telephone. We have specifically worked to increase the capability of our Payroll Advisers so that they are more knowledgeable and provide advice that is consistent no matter who provides the response.

Based on feedback from schools we continue to make other improvements to the service we provide, including updates to Novo forms to make them simpler to use.

The sector

We continued to work on our connection with the broader education sector (unions and associations) and with other parties involved in the payroll process, such as Inland Revenue and ACC.

We continue to engage with the leaders in the education sector, holding regular meetings where payroll issues and developments are discussed and perspectives from the sector are taken into account in our planning. The contributions from sector leaders has been invaluable.

SUSTAINABILITY OF THE PAYROLL SYSTEM

Our technology systems underpin the ongoing performance of our payroll service. In 2016/17 we have continued to enhance systems performance and reduce risk.

Managing Infrastructure Risk

In the past year we replaced core near end of life infrastructure. This provides a more resilient pay service, increases operational efficiency, and reduces batch pay processing times by 40%.

Disaster Recovery Testing

We upgraded software that transfers processing to our secondary Data Centre in the event of a disaster – again further reducing risk to the payroll service. This has now been embedded and will be tested on an ongoing basis. We also tested our environment in a live situation with our response to the Kaikoura earthquake.

Payroll Systems Performance, Stability and Monitoring

We have developed and implemented monitoring tools that provide sufficient information for troubleshooting and health checks to some of the core pay processing software. We are now able to better ascertain the status of our payroll process in real time to reduce the risk of problems during pay processing.

EoY/SoY Technology Improvements

In 2016/17 we improved our EoY/SoY processes and capabilities to improve the performance of key processes during our peak processing load at the end of each year.

Terminations and Leave

Processes for calculation of pay for people leaving the payroll service and taking leave were improved to reduce the manual work arounds required.

Improving Software Development and Support

In 2017 we piloted the implementation of agile approaches to software development to improve the efficiency of new software delivery. In addition, we are implementing "Dev/Ops" tools and methods which will improve our ability to release software more regularly and improve the quality of software being delivered.

MANAGING RISK

An enterprise risk management framework based on ISO 3001 is in place and the corporate risk register is reviewed and updated regularly by the senior leadership team. Risks are also reporting to the Ministry through the Operations Board. The Audit and Risk Committee meets quarterly to discuss and follow-up on key risks and audit issues. The risk management programme is supplemented by an incident management framework which is initiated when incidents occur. All incidents are managed proactively with closure and lessons learnt reporting in place.

Assurance and Controls Environment

An Assurance and Controls function was established in November 2016. Since then, several assurance policies have been put in place along with an assurance framework based on the 'Three Lines of Defence'. An internal assurance annual plan will be implemented for 2017/18.

Several new policies were introduced and some existing policies reviewed to ensure that they remain fit for purpose and current.

OUR PEOPLE

We value our people and recognise that EPL is as good as the people who work here and the need to make the best use of the skills and strengths of all our people.

EPL supports a strong organisational culture where people feel valued, connected and engaged and believe this is essential for us to deliver on our strategic direction. To achieve our objectives, we need to maintain a high level of engagement with staff and must continue to develop a culture that is participatory, collaborative, and high trust.

The Board and leadership of EPL are committed to ensuring that the company is a good employer.

Our Staff
At June 2017 EPL comprised a total of 128.5 positions made up of:

- an Operations group of 88.5
- a Technology group of 22
- a Corporate team of 10
- a Portfolio Management Office of 2 and
- an Executive team of 6.

EPL is made up of a permanent employee base which is supplemented by key partners who provide third party support to a number of specialist areas across the business. The Board and leadership team have placed significant emphasis on maintaining and building on the already strong culture and stabilising the workforce.

The focus in 2016/17 was to implement and embed the new structure based on a more customer centred model. This would ensure that EPL is better placed to manage the schools' payroll and that schools are supported in the right way to deliver on their payroll responsibilities.

Following a period of consultation, final decisions were taken in July 2016 to implement a new organisational structure to further our ability to respond effectively to customers. The new organisational structure was phased in over the following months and was fully implemented by September 2016.

Growing Our People
EPL supports the development and growth of its employees. As EPL grows, develops, and our structure evolves, new opportunities have arisen. EPL actively encourages its staff to seek out these opportunities to build their capability. We also operate a continuous improvement method with a heavy focus on on-the-job training to allow employees to learn through doing, which encompasses one of our key values.

Staff Engagement
EPL undertook its second Staff Engagement Survey in April 2016. We achieved a high participation rate with 94% of our staff and third party providers completing the survey, a 4% increase from the previous survey. Overall engagement increased by 12%, with actively disengaged decreasing by 7%.

We continue to run a monthly award programme where employees are recognised for going 'above and beyond' and demonstrating our company values.

Health and Safety
Health and safety continues to be a key focus for EPL's Board and leadership who have consistently communicated a commitment to ensuring a safe and healthy workplace is provided for all employees. EPL's Health and Safety Committee continues to meet regularly and encourages active participation from all employees in creating a safe and supportive environment. We also communicate regularly to all employees with health and safety tips and information and have developed a full suite of health and safety policies, guidelines and forms.

Harassment and bullying prevention
EPL takes a zero tolerance approach to all forms of bullying and harassment and has policies in place to deal with harassment complaints should they arise.

STATEMENT OF CORPORATE GOVERNANCE

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

The Company is subject to certain provisions of the Crown Entities Act 2004 (CEA) and to the Official Information Act 1982 and the Ombudsmen Act 1975. The Company's day to day operations are primarily governed by the Companies Act regime.

EPL'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
EPL is accountable to its shareholding Ministers. The Commercial Operations unit (a business unit of the Treasury) will assist shareholding Ministers in monitoring the Company's performance against financial and non-financial measures. The Ministry contracts EPL for payroll services in accordance with the Services Agreement.

Crown Entities Act 2004
Under section 45OA of the Public Finance Act 1989, some of the provisions of the 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, relating to preparing an SOI, Statement of Performance Expectations and an Annual Report respectively.

Companies Act 1993
Under this 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
EPL is required to operate within the functions, powers and constraints outlined above. Within this framework, the Company has considerable discretion how it goes about its day-to-day operations. This report from the Chair and Chief Executive of the Company contains information concerning the operations and performance of the Company for the financial year covered by this report.

Board of Directors
The Education Payroll Limited Board was established in August 2014. The Board comprises four non-executive Directors appointed by Shareholding Ministers, following Cabinet approval. The directors during the 2016/17 year were: Murray Jack (Chair), Cathy Magiannis, Sandi Beatie and Marcel van den Assum.

Murray Jack is the chair of the board of the New Zealand Financial Markets Authority, Chartered Accountants Australia and New Zealand, and a Director of The New Zealand Initiative. At Deloitte New Zealand, he previously served as Chief Executive (2005–2011) and Chairman (2011–14). Murray has over 30 years' experience in management consultancy working in the United Kingdom, New Zealand, Australia and throughout Asia. He has been an adviser to government ministers and chief executives around the world. He has particular strengths in helping organisations to establish good corporate governance and advising on business and technology transformation.

Cathy Magiannis joined the board following two years with the Ministry of Education and Education Payroll Limited and brings a deep understanding of the education sector. As Deputy Secretary of Education Payroll Services Cathy helped resolve the issues in delivery of payroll services and led the transition of the Novopay service to Education Payroll Limited. Cathy then took on the role of Chief Executive of Education Payroll Limited where she oversaw an intensive work programme to build on the improvements that had already been made to the schools' payroll system and service. Cathy's experience spans both the public and private sectors. She is a highly experienced leader and operational manager with proven programme delivery expertise. Prior to joining EPL and the

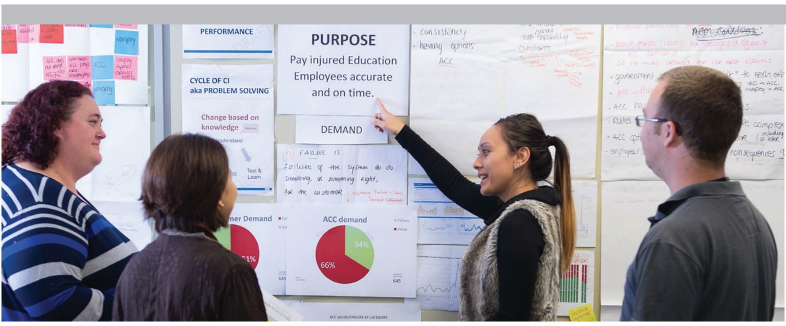
Ministry, Cathy was the Chief Executive of Gareth Morgan Investments Group. Before that, Cathy held a number of senior management roles at Inland Revenue including programme Director of KiwiSaver where she led the implementation of the Government's KiwiSaver initiative across a number of government agencies.

Sandi Beattie is a non-executive director of IQANZ Ltd and Johnson Partners Ltd, Chair of the Archives Council and serves on the Risk & Assurance Committee for the Department of Prime Minister & Cabinet. She is also an independent reviewer for the Performance Improvement Framework (PIF) administered by the State Services Commission. Sandi brings substantial experience from a diverse career that has spanned 35 plus years and included a range of senior executive and consulting roles in both the public and private sectors. She served as the statutory Deputy State Services Commissioner from 2013-2015 and prior to that was Deputy Chief Executive at the Ministry of Justice and at the Department of Corrections. She was a member of the Better Public Services Advisory Group. Her organisational and governance skills were honed through overseeing major programmes such as the redevelopment of the Justice Information Strategy, improving public access to Tribunals and the establishment of public-private partnerships for service delivery. Sandi is a member of the New Zealand Institute of Directors:

Marcel van den Assum is a professional director, independent advisor and angel investor. His roles include Chairman of Voco Ltd, Flick Electric Ltd and Simplhealth Ltd, Director of CropX Ltd and Yonix Ltd, Partner in Lush Design Gallery, and an Independent Advisory Board position with New Zealand Inland Revenue, GlobalDay1 Investment Committee and MerlotAero Ltd. He is a Board member of Angel HQ and Chairman of the Angel Association of NZ, founding investor in LightningLab accelerator, and a member of the NZ Institute of Directors. He was founding Chairman of GreenButton Ltd, a New Zealand start up acquired by Microsoft Corporation. Prior to his governance career, Marcel was CIO of New Zealand's largest company Fonterra for 5 years, and previous to that Managing Principal of Unisys New Zealand and held leadership roles in various global functions. He has worked across many industry sectors, government entities, and in most geographies.

The Board currently has one standing committee:

Audit and Risk Committee
The Audit and Risk Committee was chaired by Cathy Magiannis in the 2016/17 year. The committee assists the Board in fulfilling its responsibilities with respect to internal controls, accounting policies, financial statements approval, risk management, and the nature, scope, objectives and functions of external and internal audit.



STATEMENT OF RESPONSIBILITY

The Board is responsible for the preparation of EPL's financial statements and Statement of 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 Performance fairly reflect the financial position and operations of EPL for the year ended 30 June 2017.

Signed on behalf of the Board.

Murray Jack
Board Chair

14 September 2017

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF EDUCATION PAYROLL LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Education Payroll Limited (the Company). The Auditor-General has appointed me, Stuart Mutch, 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 21 to 37 that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and 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 including a summary of significant accounting policies; and
- the performance information of the Company on pages 4 to 5.

In our opinion:

- the financial statements of the Company on pages 21 to 37
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; 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.
- the performance information on pages 4 to 5
  - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2017, 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.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 14 September 2017. This is the date at which our opinion is expressed.

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

Basis of 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 audit opinion.

Responsibilities of the directors for the financial statements and the performance information

The directors are responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The directors are responsible for such internal control as they determine is necessary to enable them 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 directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The directors are 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 merge or to terminate the activities of the Company, or there is no realistic alternative but to do so.

The directors' responsibilities arise from 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 the 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 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 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 directors' 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 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 directors are responsible for the other information. The other information comprises the information included on pages 1 to 3 and 6 to 16, 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 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit, we have performed an independent review of the provision of incorrect payroll reports on Novopay Online and provided technical support to the development of a controls reporting framework for Education Payroll Limited as a service organisation which are compatible with these independence requirements. Other than these engagements and audit, we have no relationship with or interests in the Company.

Stuart Mutch
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

FINANCIAL STATEMENTS

The financial statements were approved by the Board and authorised for issue on 14 September 2017.

STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES FOR THE PERIOD ENDED 30 JUNE 2017

Year ended 30 June	Notes	Actual $000 2017	Budget $000 2017	Actual $000 2016
Revenue from exchange transactions				
Sales of Services to Government	1	25,755	24,637	27,480
Insurance Recoveries relating to Kaikoura Earthquake		80	-	-
Total Operating Revenue		**25,835**	**24,637**	**27,480**
Expenses				
Personnel Expenses	14	9,269	8,462	9,475
Third Party Support		5,820	5,702	7,969
Corporate Expenses	7	635	568	813
Auditor's Remuneration	8	47	43	47
Directors' Fees	13	136	108	119
Travel & Entertainment		63	156	79
Accommodation & Facilities		1,626	860	913
ICT Costs		5,115	4,919	4,828
Depreciation & Amortisation		3,822	3,927	3,427
Total Operating Expenses		**26,533**	**24,745**	**27,670**
Non-operating items				
Loss on asset disposal		300	-	-
Gain on asset disposal		-	-	2
Total Non-operating items		**300**	**-**	**2**
Finance income				
Interest Received		14	120	93
Finance expenses				
Interest expense		12	12	24
Total Finance Costs		**2**	**108**	**69**
Total deficit for the period		**(996)**	**-**	**(119)**
Total comprehensive income		**(996)**	**-**	**(119)**

The accompanying notes should be read in conjunction with these financial statements.
Explanations of major variances against budget are provided in note 18

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

As at 30 June	Notes	Actual $000 2017	Budget $000 2017	Actual $000 2016
Current Assets				
Cash and cash equivalents		5,689	7,797	7,225
Receivables from exchange transactions*	2	356	-	-
Prepayments		1,029	733	1,128
Total Current Assets		**7,074**	**8,530**	**8,353**
Non-Current Assets				
Property, Plant and Equipment	3	1,406	999	1,650
Intangible Assets	4	15,752	17,437	16,647
Work In Progress		3,640	500	2,123
Total Non-Current Assets		**20,798**	**18,936**	**20,420**
Total Assets		**27,872**	**27,466**	**28,773**
Represented by				
Current Liabilities				
Finance Lease Liability (Current Portion)	6	112	112	216
Accruals and Payables	5	2,378	2,587	2,530
Employee Entitlements		471	550	459
Other Provisions	12	451	-	-
Total Current Liabilities		**3,412**	**3,249**	**3,205**
Non-Current Liabilities				
Finance Lease Liability (Term Portion)	6	-	-	112
Total Non-Current Liabilities		**-**	**-**	**112**
Total Liabilities		**3,412**	**3,249**	**3,317**
Net Assets		**24,460**	**24,217**	**25,456**
Shareholders' Funds				
Capital Contributions	17	25,520	24,217	25,520
Retained Earnings		(1,060)	-	(64)
Total Shareholders' Funds		**24,460**	**24,217**	**25,456**

The accompanying notes should be read in conjunction to these financial statements.
Explanations of major variances against budget are provided in note 18.

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Actual $000 2017	Budget $000 2017	Actual $000 2016
Opening Balance as at 1 July	25,456	24,217	25,575
Movements:			
Capital Contributions	-	-	-
Total Comprehensive Income for the Year	(996)	-	(119)
Balance as at 30 June	**24,460**	**24,217**	**25,456**

The accompanying notes should be read in conjunction with these financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

Year ended 30 June	Notes	Actual $000 2017	Budget $000 2017	Actual $000 2016
Cashflows from Operating Activities				
Receipts from Sales of Services for Government		25,337	28,333	32,184
Receipts from Interest Received		14	120	93
Receipts from Other Income		5	-	-
Cash inflows from Operating Activities		**25,356**	**28,453**	**32,277**
Payments to Suppliers		13,366	14,534	15,535
Payments to Employees		9,226	8,894	9,302
Cash outflows from Operating Activities		**22,592**	**23,428**	**24,837**
Net cash (inflows) from Operating Activities	10	**2,764**	**5,025**	**7,440**
Cashflows from Investing Activities				
Payments:				
Purchase of Fixed Assets		4,072	4,000	3,567
Cash Outflows from Investing Activities		**4,072**	**4,000**	**3,567**
Net Cash(Outflows) from Investing Activities		**(4,072)**	**(4,000)**	**(3,567)**
Cashflows from Financing Activities				
Payments:				
Repayments of Finance Lease		228	228	228
Cashflows Outflows from Financing Activities		**228**	**228**	**228**
Net Cash Outflows from Financing Activities		**(228)**	**(228)**	**(228)**
Net increase in cash and cash equivalents		**(1,536)**	**797**	**3,645**
Cash and cash equivalents at beginning of period		7,225	7,000	3,580
Cash and Cash Equivalents at the end of the period		**5,689**	**7,797**	**7,225**
Represented by:				
Cash at Bank		5,689	7,797	7,225
		5,689	**7,797**	**7,225**

The accompanying notes should be read in conjunction to these financial statements.
Explanations of major variances against budget are provided in note 18.

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity
Education Payroll Limited (EPL) is a Crown entity as defined by the Crown Entities Act 2004 and listed in Schedule 4A of the Public Finance Act 1989. The company resides in New Zealand and operates under the Companies Act 1993. The Financial Statements disclosed are for the period 1 July 2016 to 30 June 2017.

EPL's primary objective is to deliver school payroll service to the Ministry of Education and the sector that is accurate and on time. As such, EPL does not operate to make a financial return and therefore is a Public Benefit Entity. In addition, EPL administers two trust accounts on behalf of the Ministry of Education related to the provision of sector payroll services.

Basis of Preparation
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 Financial Reporting Act 2013, which requires compliance with generally accepted accounting practice in New Zealand ("NZ GAAP").

The financial statements of the Company comply with Public Benefit Entity (PBE) standards and have been prepared in accordance with Tier 1 PBE standards.

Budget Figures
EPL's 2017/18 budget was adopted by the Board on 16 June 2016.

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

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

Changes in 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 the preparation of these financial statements.

Revenue from Exchange Transactions
Payroll services provided to the Ministry of Education on commercial terms 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 is an exchange transaction, recognised when the following criteria are met::

- significant risks and rewards of the services have passed to the buyer
- services have been delivered, and
- the amount can be measured reliably and it is probable that the service potential associated with the transaction will flow.

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

Leases
Finance Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At commencement of the lease term, finance leases where EPL is the lessee are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to surplus or deficit as interest expense over the period of the lease.

Operating Lease

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

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

Financial Instruments Presentation
Financial assets and financial liabilities are recognised when EPL becomes a party to the contractual provisions of the financial instrument.

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

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

Cash and Cash Equivalents
Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Loans and 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.

Financial Liabilities
EPL's financial liabilities include trade and other creditors, and borrowings that pertains to EPL's Finance Lease.

Property, Plant and Equipment
Property plant and equipment asset classes consist of office equipment, furniture & fittings, ICT equipment & 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 EPL 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 EPL 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.

Work in Progress
Assets under construction are recognised at cost within non-current assets and are not depreciated..

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 disposal are included in the Statement of Comprehensive Revenue and Expenses.

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 10 years
Furniture & fittings	3 to 12 years
ICT equipment	1 to 12 years
Leasehold improvements	1 to 11 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.

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing.

Costs that are directly associated with the developments 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 amortisation rates are used in the calculation of amortisation:

Software Licenses	6 to 8 years
Developed Software	8 years
Purchased Software	1 to 4 years
Other Intangibles	6 years

Accruals and Payables

Creditors and other payables are non-interest bearing and are normally settled on 20th of the following month, therefore the carrying values of creditors and other payables approximate their fair value.

Employment Entitlements

Employment entitlements that EPL expects to be settled within 12 months of balance date are measured at nominal value on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date; annual leave earned but not yet taken at balance date; expected to be settled within 12 months.

Equity

Equity is the shareholder's interest in EPL, measured as the difference between total assets and total liabilities.

100 shares were issued in 2014 to the Minister of Finance and Minister Responsible for Novopay. The shares have no par value and have not been fully paid.

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 at exclusive of GST.

Income Tax

EPL is exempt from income tax. Accordingly, no provision has been made for income tax.

Cost Allocation

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

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 that affect 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.

Estimating useful lives and residual values of property, plant and equipment

At each balance date, 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 the EPL, and expected disposal proceeds from the write-off of these assets.

An incorrect estimate of the useful life or residual value will affect the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the statement of financial position. EPL minimises the risk of this estimation uncertainty by:

- physical inspection of assets
- asset replacement programs

Intangible Assets recognition & measurements

Valuations are inherently subjective, and require the use of judgement. Determining the initial life of an asset requires judgement. Intangible Assets that qualify shall initially be recognised at its cost. Cost is deemed to be at fair value where it is acquired at no cost or nominal value. After initial recognition, a reporting entity shall choose either the cost model or the revaluation model as its accounting policy, and shall apply that policy to an entire class of Intangible Assets.

Determining the useful life of an asset also involves judgement. Project Managers are requested to explicitly advise on appropriate useful lives over which asset components should be depreciated for accounting purposes. These requirements may require the Project Manager to seek the professional assistance of other experts such as engineers or developers, technical experts, where the expert does not have the necessary expertise.

Intangible assets acquired by EPL are initially recognised at their fair value at acquisition date. After initial recognition these intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

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

Determining whether expenditure is classed as capital or operating expenditure requires judgement as to whether the costs is likely to provide future economic benefits to EPL over a number of years which results in the creation, purchase or improvement of an asset.

Judgement is required on various aspects that include, but are not limited to, the life of the asset, the service potential or capability of that asset, whether or not an enhancement to an existing asset is significant and quantifiable to be considered an improvement, and determining the appropriate depreciation rate.

Specific provisions have been raised where objective evidence exists. Calculations are determined using historical experience and management's experience of economic stress factors. Key macroeconomic assumptions considered in the provisioning assessment are make-good costs associated to the lease property, and insurance recoveries.

1. SALES OF SERVICES TO GOVERNMENT

Rendering Services – full cost recovery
Under the new Service Level Agreement, EPL are operating under 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 costs of running the service is captured.

2. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Receivables from exchange transactions include the following components:

	$000 2017	$000 2016
Receivables from exchange transactions	356	-
Total Receivables from exchange transactions	**356**	**-**

The total value of insurance claim yet to be settled is $202,000.

3. PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2017	$000 Furniture & Fittings	$000 ICT Equipment	$000 Office Equipment	$000 Leasehold Improvements	$000 Total
Opening Balance	276	1,646	99	413	2,434
Additions	103	600	7	-	710
Disposals	(65)	-	-	(379)	(444)
Less opening accumulated depreciation	(44)	(621)	(34)	(85)	(784)
Accumulated depreciation written off on disposal	21	-	-	122	143
Depreciation for the year	(32)	(540)	(20)	(61)	(653)
Closing accumulated depreciation	(55)	(1,161)	(54)	(24)	(1,294)
Closing balance at 30 June 2017	**259**	**1,085**	**52**	**10**	**1,406**

Year ended 30 June 2016	$000 Furniture & Fittings	$000 ICT Equipment	$000 Office Equipment	$000 Leasehold Improvements	$000 Total
Opening Balance	206	909	56	217	1,388
Additions	70	737	43	196	1,046
Less opening accumulated depreciation	(17)	(230)	(13)	(29)	(289)
Depreciation for the year	(27)	(391)	(21)	(56)	(495)
Closing accumulated depreciation	(44)	(621)	(34)	(85)	(784)
Closing balance at 30 June 2016	**232**	**1,025**	**65**	**328**	**1,650**

The net carrying amount of the ICT equipment held under a finance lease is $90,495 (compared with $293,906 in 2016).

4. INTANGIBLE ASSETS

Year ended 30 June 2017	$000 Developed Software	$000 Purchased Software	$000 Software Licences	$000 Other Intangibles	$000 Total
Opening Balance	8,803	60	8,779	4,000	21,642
Additions	1,414	-	103	772	2,289
Less opening accumulated depreciation	(1,822)	(60)	(1,946)	(1,167)	(4,995)
Depreciation for the year	(1,297)	-	(1,131)	(756)	(3,184)
Closing accumulated depreciation	(3,119)	(60)	(3,077)	(1,923)	(8,179)
Closing balance at 30 June 2017	**7,098**	**-**	**5,805**	**2,849**	**15,752**

Year ended 30 June 2016	$000 Developed Software	$000 Purchased Software	$000 Software Licences	$000 Other Intangibles	$000 Total
Opening Balance	8,159	60	8,779	4,000	20,998
Additions	644	-	-	-	644
Less opening accumulated depreciation	(712)	(33)	(834)	(500)	(2,079)
Depreciation of the year	(1,110)	(27)	(1,112)	(667)	(2,916)
Closing accumulated depreciation	(1,822)	(60)	(1,946)	(1,167)	(4,995)
Closing balance at 30 June 2016	**6,981**	**-**	**6,833**	**2,833**	**16,647**

5. ACCRUALS AND PAYABLES

	$000 2017	$000 2016
Creditors	1,699	1,308
Accrued expenses	679	1,222
Total creditors and other payables	**2,378**	**2,530**

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

6. ANALYSIS OF FINANCE LEASE

EPL has one finance lease that has been approved by the Minister of Finance. The finance lease entered covers ICT equipment. Westpac has a security held over this asset and over the company's assets, undertakings and uncalled capital. The net carrying amount of the leased equipment is shown in note 3. The lease expires in 2017.

30 June 2017	$000 2017	$000 2016
Minimum lease payments payable:		
Within one year		228
Later than one year and not later than five years	-	114
Later than five years	-	-
Total minimum lease payments	114	342
Future finance charges	(2)	(14)
Present value of minimum lease payments	**112**	**328**
Present value of minimum lease payments payable:		
Within one year	112	216
Later than one year and not later than five years	-	112
Later than five years	-	-
Total finance lease	**112**	**328**
Represented by:		
Current	112	216
Non-current	-	112
Total finance leases	**112**	**328**

7. CORPORATE EXPENSES

	$000 2017	$000 2016
Corporate Expenses		
Bank Fees	1	3
Fringe Benefit Tax	34	33
Insurance	59	27
Mail/Courier	42	25
Other Corporate Costs	108	40
Payslip Printing and Postage	297	419
Sponsorship	3	4
Stationery, Printing & Photocopying	74	256
Catering Costs	12	5
Other: Cost Recovery Expenses	5	1
	635	**813**

8. AUDITOR'S REMUNERATION

EY provides audit services to EPL. Total amount recognised as an audit expense was $47,450 (compared with $46,500 in 2016).

Other Assurance Services provided by the Auditor of the Financial Statements:

- Provision of technical advice on the establishment of a service organisation control environment assessment $10,500
- Independent Review of Privacy Management $35,000

9. 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:

	$000 2017	$000 2016
Loans and receivables:		
Cash and cash equivalents	5,689	7,225
Receivables from exchange transactions	356	-
	6,045	**7,225**
Financial liabilities at amortised costs:		
Accruals and other payables	2,378	2,530
Finance Lease	112	328
	2,490	**2,858**

10. RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	$000 2017	$000 2016
Net deficit	(996)	(119)
Add non-cash items		
Depreciation and amortisation expense	3,392	3,427
Loss in disposal	300	-
Finance lease	12	12
Net movements in non-cash items	**3,704**	**3,439**
Add/(less) movements in statement of financial position Items		
Trade Debtors	(356)	2,406
Accrued Income	(138)	2,159
Prepayments	98	(525)
Trade and Other Payables	391	(644)
Accruals & Provisions	49	610
Employment entitlements	12	114
Net movements in working capital items	**56**	**4,120**
Net Cash flow from Operating Activities	**2,764**	**7,440**

11. CAPITAL COMMITMENTS

EPL has contracted commitments for the development of property, plant and equipment or intangible assets as at 30 June 2017 of $56,617 (compared with $412,948 in 2016).

12. OPERATING LEASES AS LESSEE

Future minimum rental payable operating leases as at 30 June 2017 are as follows:

30 June	$000 2017	$000 2016
Not later than one year	1,194	716
Later than one year and not later than five years	3,640	3,113
Later than five years	700	-
Total non-cancellable operating leases	**5,534**	**3,829**

As a consequence of the November Kaikoura earthquake, EPL have decided to discontinue its tenancy at its primary location and relocate to a new premise. EPL are scheduled to exit its leased office space on February 2018 and September 2018, respectively.

As at 30 June 2017, EPL has an onerous obligation to pay rent until the lease expires, and a provision has been recorded to recognise this event.

EPL has now signed a new head lease for six-years, which is reflected in the lease commitments above.

EPL leases car parks, office premises and office equipment in the normal course of its business. The majority of these leases are for premises which have a non-cancellable leasing period ranging from one to six years.

EPL have two lease properties, which expire in 2018 and 2023, respectively with an option to renewal.

13. BOARD OF DIRECTOR'S REMUNERATION

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

	$000 2017	$000 2016
Dame Patsy Reddy (Chair)	-	63
Murray Jack (Chair)	55	29
Cathy Magiannis	27	27
Marcel van den Assum	27	-
Sandi Beatie	27	-
Total Board member remuneration	**136**	**119**

The board of EPL comprised of four directors; Murray Jack (Chair), Cathy Magiannis, Marcel van den Assum and Sandi Beatie.

EPL maintains an interest register to identify and manage conflicts of interest.

EPL has effected Directors' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

The Directors' fees for the financial year included a special fees component amounting to 50% of standard board fees. This was approved by shareholding Ministers in recognition of the additional expectations and time commitments placed on directors during the Company's establishment period.

14. EMPLOYEE REMUNERATIONS

	$000 2017	$000 2016
Wages and salaries	8,349	8,366
Other personnel costs	920	1,109
Personnel Expenses	**9,269**	**9,475**

The amounts above include the remuneration of key management personnel.

As at 30 June 2017, EPL paid $14,614 in compensation for redundancy related to an organisational redesign.

The table below show total remuneration received by EPL employees which is or exceeds $100,000 per annum as at 30 June 2017.

$ Remuneration band	2017 Number of Employees	2016 Number of Employees
390,000 to 399,999		1
380,000 to 389,999	1	
290,000 to 299,999	1	
260,000 to 269,999		1
240,000 to 249,999	1	1
230,000 to 239,999		1
180,000 to 189,999	1	
160,000 to 169,999	2	
150,000 to 159,999	1	
140,000 to 149,999	1	
130,000 to 139,999	1	
120,000 to 129,999	1	3
110,000 to 119,999	2	2
100,000 to 109,999	3	4

Key Management Personnel
The key management personnel, as defined by PBE IPSAS 20 Related Party Disclosures, are the members of the governing body, which comprised of the Board of Directors (4), Senior Management Team (3) and the Chief Executive, 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:

Key management personnel remuneration	$000 2017	$000 2016
Senior management	1,269	924
Board	136	119
Number of persons recognised as key management personnel	8	7

15. EVENTS AFTER REPORTING DATE

No subsequent events have occurred that would require recognition or disclosure in the financial statements

16. FINANCIAL INSTRUMENT RISK

Risk management objectives and policies
EPL is exposed to various risks in relation to financial instruments. The company's financial assets and liabilities by category are summarised in note 9. The main types of risks are credit risk and liquidity risk.

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

Liquidity Risk
Liquidity risk is the risk that EPL may encounter difficulties in meeting financial liabilities as they fall due. EPL monitor and manage this risk through fulfilment of its treasury duties. Management regularly review its banking arrangements to ensure the best returns are achieved while maintaining liquidity levels to service its day to day operations. Refer to note 5 and note 6 for maturity profile of financial liabilities.

Credit Risk Analysis
Credit risk is the risk that a counterparty fails to discharge an obligation to EPL. EPL is exposed to this risk for various financial instruments, for example, by placing deposits. EPL'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.

17. EQUITY & CAPITAL MANAGEMENT

Capital contributions comprise of assets from the settlement of Talent2 contract ($19.52m), cash injection ($6m) from the Crown and accumulated comprehensive revenue and expenses. The Ministry of Education and Talent2 reached an agreement to transfer the Novopay payroll service back to the Ministry effective 17 October 2014.

EPL is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose 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's pay.

EPL are currently constructing their capital management policy. EPL's objective is to ensure that adequate returns are generated to fund the Company's day to day activities but also maintain a strong capital base and minimise its risk exposure.

Shareholder's Equity

Contributed Equity	Shares	2017 $	Shares	2016 $
Issued at no par value and not fully paid ordinary shares	100	-	100	-
		-		-

18. EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Statement of Comprehensive Income

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

The primary factor contributing to the overall increase in revenue of $1.198m is associated to additional revenue provided by the Ministry of Education in the form of Change Requests.

Actual expenditure was 8 percent higher than budgeted. The overall over-spend of $2m is primarily attributable to the following factors:

1. Personnel costs are $0.807m higher than budgeted. This was due to several reasons:
   - In September 2016, EPL established new positions to realign the company to a Customer Centric Model. This organisational restructure changed the salary bands of functional teams.
   - During the Kaikoura earthquake, additional overtime was required to deliver the School Pay that led to an increase in overtime spent.
   - Increase in-line checking to improve process integrity, payment for leavers contributed to additional costs.
2. Higher accommodation & facilities costs of $0.766m reflects an increase in relocation costs as a result of the Kaikoura earthquake.
3. Higher ICT costs of $0.196m is mainly associated to the write-off of the Violin Array support and maintenance contract that was no longer honoured as the service provider went into receivership in April 2017.
4. Higher level of asset write-offs as a result of the Kaikoura earthquake. As part of the decision to discontinue our occupation at our primary location, a number of obsolete furniture and fittings and leasehold improvements were written off. The loss in disposal was offset by a decrease in depreciation and amortisation which had a net impact of $0.195m.
5. Lower interest income of $0.0106m is largely driven by market conditions that reduced the value of cash reserves and encouraged investment in capital projects.

Statement of Financial Position

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

1. Lower current assets by $1.456m mainly due to::
   - Lower cash and cash equivalents of $2.108m as a result of higher prepayment costs $0.296m against forecast and increase external costs to mobilise the Education Payroll Development Programme.
2. Higher non-current assets by $1.862m mainly due to timing delays of capital expenditure. 2015/16 capital projects were carried forward to 2016/17, increasing the asset profile this financial year.
   - Increase expenditure in a number of work programmes, including the Holidays Act contributes to a proportion of work in progress.
3. 3. Higher current liabilities by $0.163m mainly due to:
   - Higher provisions associated to the write-off of the lease contracts as a result of the Kaikoura earthquake $0.451m
   - Offset by lower accruals and other payables as a result of timing of year end payments totalling $2.378m and efficiency in supplier engagement.
4. Lower retained earnings of $1.060m mainly due to:
   - Lower comprehensive income for the year of $0.996m.

EDUCATION PAYROLL LIMITED