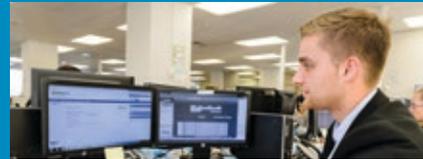


Annual Report

2016



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BOARD CHAIR'S FOREWORD

We are pleased to present our performance, achievements and financial statements for the year to 30 June 2016.

Since the transition of the schools' payroll service to Education Payroll Limited (EPL) there have been significant improvements in the delivery of the payroll service. Every fortnight EPL makes sure teachers and support staff are paid accurately and on time.

During 2015/16 we focused on improving how we connected with schools and school administrators; enabling us to understand more about the services we deliver and our own processes and systems. We began working on a continuous improvement programme called *Better Every Day* which led us to trial a new way of working with schools – the school account management system. The feedback was so positive that we have now decided to make this our normal way of working.

Managing the schools' payroll relies on technical ICT infrastructure. EPL has addressed immediate technical infrastructure risk around its people, data centre, hardware and operating platforms through the year.

We are working on a strategic review to set a direction for long term sustainability and have developed an indicative business case which was approved by shareholder Ministers. We then progressed to developing a detailed business case which will be finalised in the next few months.

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



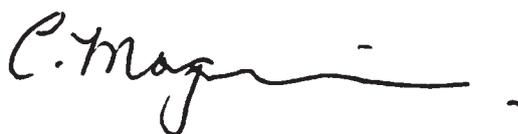
Murray Jack
Board Chair
16 September 2016

Our success can be measured by the delivery of an accurate, reliable and timely payroll across all pay periods, including the delivery of the best End of Year/Start of Year result with significant improvements across all key metrics. It can also be measured through the reduction in our company risk profile, particularly risks that relate to the base delivery of the payroll each fortnight.

Our people are essential for EPL to successfully deliver on our objectives. In 2015/16 we have focused our people initiatives on developing a shared vision for our desired culture and the way we work, leadership development and staff engagement.

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

EPL is looking forward to the year ahead, continuing to improve the experience and value for schools and ensuring that the service is sustainable for the long term. ■■



Cathy Magiannis
Board Director
16 September 2016

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 process 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.

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 individuals' 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, in accordance with our Services Agreement, 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 service centres. 

A FORTNIGHT IN THE LIFE OF EPL



EVERY FORTNIGHT EPL RECEIVES ABOUT:



12,200 instructions from school administrators



5,070 phone calls



1,100 emails

THE MAIN REQUESTS WE GET ARE TO MANAGE:



Pay details



Position details



Pay rates



Leave



Allowances and grants

STATEMENT OF PERFORMANCE

We are pleased to present our performance, achievements and financial statements for the year to 30 June 2016.

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 2016	2016 Actual \$000	2016 Budget \$000	9 months Period 2015 Actual* \$000
Total revenue	27,575	27,190	18,854
Total expenditure	27,694	27,655	18,799
Surplus/(deficit)	(119)	(465)	(55)



We measure our success with the following key performance indicators:

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2015/16	STANDARD 2015/16	ACTUAL 2014/15 (UNAUDITED)
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%
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	100%***	99.5%	100%
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%	98%	New measure in 2015/16
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	99.5%	Baseline to be established in 2015/16	New measure in 2015/16
Customer satisfaction	% of people surveyed with a satisfaction rating at or above expectations	Developed and ran two initial surveys to inform a 2016/17 baseline	Baseline to be established	New measure in 2015/16

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

** We monitor over pay periods (not calendar dates). The figures are averages for the beginning of pay period 8 in 2015 (24 June) to the end of pay period 7 in 2016 (6 July).

*** MOE report actual performance for 2015/16 of 99.99% which takes into consideration the limited number of manual payments made after each pay run.

OUR ACHIEVEMENTS

EPL is a limited liability company incorporated on 27 August 2014. It was formed following a decision to transfer ownership and management of the schools' payroll service from Talent2 to a new government-owned company.

The 2015/16 year was our first full year of operation. Our focus was on engaging with our customers and the sector, reducing our risk level, bringing in a new school-centred operational model and stabilising the payroll process.

FORTNIGHTLY PAY CYCLE

The fortnightly pay cycle touches all areas of EPL – from our service centre staff 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 2015/16 EPL has successfully managed the delivery of the pay accurately and on time for 27 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 the 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 implemented. In addition school financial reporting is due at the end of March.

As in 2014/15, a programme of work was undertaken in the 2015/16 year between EPL and the Ministry of Education to manage this annual process. The objective was to deliver the same user experience as in 2014/15 with comparable performance statistics (in terms of pay accuracy and number of complaints).

In the 2015/16 year we improved communications to schools and school employees, particularly website communications, and developed a new Holiday Pay information tool. The result was an improved

customer experience and reduced calls to the service centre. We also maintained our strong training and capability focus both through EPL's contacts with schools and by providing user training and guides which were developed by the Ministry.

Overall, we delivered the best End of Year / Start of Year result with significant improvements in all key metrics.



STATISTICS

1,129

authorised users used the End of Year self-paced learning module

314

authorised users attended an End of Year e-Workshop

1,015

authorised users accessed the Start of Year self-paced learning module

100%

schools completed their End of Year data entry by close-off

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

END OF YEAR ERROR RATES

	2014	2015
Pay Period 18	0.06%	0.16%
Pay Period 19	0.08%	0.06%
Pay Period 20	0.20%	0.12%

START OF YEAR ERROR RATES

	2015	2016
Pay Period 21	0.11%	0.03%
Pay Period 22	0.09%	0.04%
Pay Period 23	0.18%	0.15%

Note: An error is defined as a notification of an under, over or no payment. Once we receive these notifications we work on them to determine if they are actual errors. Pay period 18 started on 11 November 2015 and pay period 23 started on 20 January 2016.



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

ENGAGING WITH THE CUSTOMER

Schools

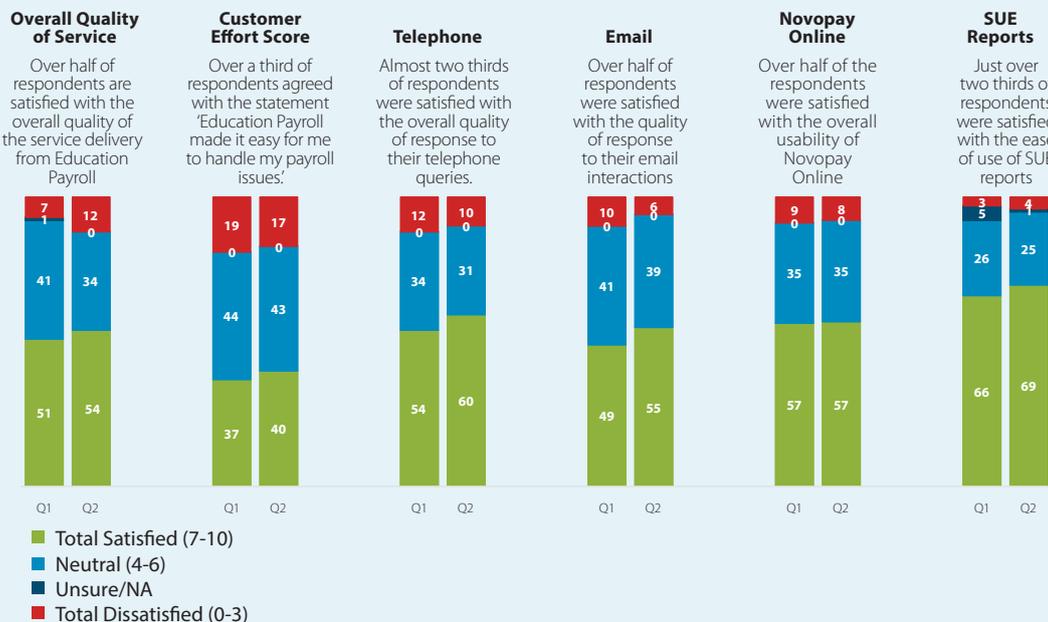
During the 2015/16 year we developed a programme of school visits and also connected with school administrators by attending a number of conferences. The programme proved a useful way to understand more about how our services are received and the areas where customers have problems with our processes and systems. We will continue to engage across the sector as part of an effort to lift sector capability, continue our learning processes and improve our service.

We communicate regularly with the sector through the fortnightly Novopay News newsletters and the Novopay website. In particular the newsletter and website were used during the End of Year/Start of Year process to alert school administrators to key dates.

We are working to improve our understanding of the sector through regular online satisfaction surveys with authorised users. As at 30 June 2016 we had run two surveys with over 200 users each time. The initial results showed a significant portion of users are either satisfied with or neutral about their overall experience of working on the payroll for their school.

The graph below is a snapshot of the results received from the initial two surveys conducted. On-going surveys will be used to measure customer satisfaction and provide valuable information and insights to enable EPL to continuously improve the delivery of payroll services to schools.

2016-Q1 and Q2 Customer Satisfaction Snapshot



The Sector

We also worked on our connection with the broader education sector and with third parties involved in the payroll process.

We are active with sector leaders, holding regular meetings where topical issues and developments are discussed. The contributions from sector leaders have been invaluable.

We have also continued to develop our relationships with third parties, particularly with IRD to resolve compliance issues.

IMPLEMENTING A SCHOOL-CENTRED MODEL

In 2015 EPL began working with the State Services Commission (SSC) on a continuous improvement programme called *Better Every Day*.

Through the programme we engaged with schools and the sector to review our assumptions and thinking about our service and systems.

Armed with a better understanding of both our processes and the wider payroll system we decided to trial a new way of working with schools – the school account management system. We started with a team of five payroll officers working with 82 schools. Feedback from both staff and schools was so positive that we decided to extend the trial to a further five payroll officers and a total of 200 schools. This allowed us to spread the better experience to more schools while also testing ways to transfer knowledge and learning across the business.

We measured the results (see graphic) which were so good we have now decided to make the school account manager system our normal way of working.

WHAT WE ACHIEVED

 **33% ↓**
errors reported

 **40% ↓**
overpayments

 **20% ↓**
transaction time

 **75% ↓**
time to train staff

 **100%** customers wanted improvement trials to continue

WHAT EPL SAID

"Our thinking has been challenged about how we work."

"All staff are now engaged in improving the business."

"We have re-connected with our customers, listened to them, and re-designed our operating model around their needs."

WHAT SCHOOLS SAID

"This has made things so much easier at our end and at last given us a more positive payroll experience."

"I feel like I'm finally getting the answers I need."

"Novapay has come a long way and is getting better all the time."

"You've turned a page on the past by bringing back the art of communication."



JUDY COSGRIFF

*Office Manager at
Khandallah School on
the benefits of Better
Every Day*

Judy Cosgriff, Office Manager at Khandallah School was part of the early trial test of the *Better Every Day* account manager process.

She was delighted with the results.

"It's made a huge change to my workload. I've learnt a lot from the account manager so I'm feeling like a trained payroll officer myself, now. I feel part of the EPL team almost. It's a professional group - we discuss problems and they ask advice from me as much as I ask advice from them."

Judy says she can now trust that she is getting correct information and that she can be certain her staff are being paid correctly, getting all their benefits and that their leave is correct.

"I'm singing the praises of this new way of working. When I call for help now issues are solved within two or three minutes. I know exactly how to fill the forms in, exactly what I should be doing. My time spent on payroll has probably quartered." ☰



MELISSA BECK

*EPL Team Leader on
Better Every Day*

Melissa Beck, EPL team leader says the *Better Every Day* continuous improvement programme is making it easier to come to work each day.

"How we work now gives us a lot more personal responsibility and means we can create really positive relationships with school administrators. This makes it really easy for us to get up in the morning because we know we are making a positive difference to the other end of the system.

"In the old system, it was sometimes quite challenging to work with schools because we weren't in a position to be customer focused all the time; we didn't always have all the information in front of us and we weren't always able to answer all the queries the school had."

In the old system payroll processing was split between functions – so each team focused on one or two key areas, rather than the system as a whole.

Under the new way of working, Melissa says, the teams have an overview of the whole system, and more time for problem solving, team collaboration and better customer interactions.

"It's really important for us to understand our customers' wants and needs. When we understand those we can make changes and provide a more effective payroll service.

"The difference we are seeing with school administrators is huge. The feedback we're getting is that they are not spending as long on payroll, so they can spend more time supporting other areas.

"I like this approach because we don't start with the idea that we have the answers. You start with understanding the customer and then work together to meet their needs." ☰

SUSTAINABILITY OF THE PAYROLL SYSTEM AND OUR ENVIRONMENT

We have worked to improve the sustainability of our information technology systems, the payroll system and to improve our working environment in 2015/16.

We are working on a strategic review to set a direction for long term sustainability and have developed an indicative business case which was approved by shareholder Ministers. We have now progressed to developing a detailed business case which includes technical discovery work on our current delivery platforms and the development of viable options for upgrade and on-going usability.

Leave Project

It is important that schools are confident that their employees' leave entitlements and balances are correct, and that they have the right information to manage leave on an ongoing basis. The Leave Project was established to improve the accuracy of leave balances and compliance with the Holiday Pay Act and Collective Agreements, improve sector and pay centre knowledge on leave, correct outstanding leave issues and provide new fortnightly leave reporting to schools.

The project led to an improved accuracy of sick and annual leave balances, improved capability of schools, EPL, the Ministry of Education and NZSTA to manage leave accurately and a reduction in effort by schools in verifying leave liabilities for financial reporting.

Managing Debt Recovery

We re-established the use of a debt collection agency to collect historic education payroll debt and proactively contacted debtors and schools to make sure the debt was still valid and had been correctly calculated. Our new debt calculator tool increased the accuracy of the figures and saved time.

Notifying employees earlier of the overpayment has led to faster debt clearance and a reduction in questions coming in to the debt unit.



THE FINAL STATISTICS FOR THE LEAVE PROJECT:

98%

of schools engaged in the process

2,379

related calls to the Service Desk

8,130

tickets (requests from authorised users) received

There has been a 53.62% drop in total outstanding debt from \$9.0m to \$4.8m since June 2014. The recent focus on historic debt (debt from when Novopay started up until June 30th 2014) is also delivering results with an 11% reduction in the 2015/16 financial year, from \$1.76m to \$1.57m.

Technology System Improvements

The schools' payroll relies on technical ICT infrastructure to manage its payroll. EPL has addressed immediate technical infrastructure risk around its people, data centre, hardware and operating platforms.

When EPL took over operation of the schools' payroll, the technical infrastructure needed significant investment for it to be at the level needed to support acceptable operating risk. Since then, EPL has invested in upgrades across all aspects of the infrastructure to address this risk. The data centre, storage, communications, server platforms, and desktop devices are now remediated to an acceptable level.

Significant investment has been made around security and privacy to ensure that information is secure and that effective systems and processes are in place to prevent improper disclosure. The material risks have been mitigated and a privacy impact assessment completed. The recommendations are being implemented.

All key people required to support the core systems have been retained and recruited as permanent employees. Upskilling and cross-skilling is also occurring. Systems to manage core knowledge are also being implemented. All the core management processes (including change management, incident management, and problem management) are in place and working effectively.

Working Together Better

We have consolidated our Wellington operation from two sites to one and introduced video conferencing capability to enable a better link with our Christchurch office. This has improved engagement and working arrangements across the business.

To further progress working relationships we have started work on developing an intranet and Document Management System which will help improve how EPL manages, stores and accesses critical operational information, data and documents.

Managing Risk

We have developed an enterprise wide risk management framework and a corporate risk register which is reviewed regularly by the senior management team and EPL's audit and risk committee. We have made solid progress on reducing the company's risk profile particularly on risks that relate to the base delivery of the payroll each fortnight. We saw a reduction in technology failures and improved security and privacy management over the year.

The Controls Environment Review

EPL have initiated a project to implement the International Standards for Assurance Engagements (ISAE) New Zealand 3402 assurance standard framework. This is the next step in EPL's maturity as an organisation and will strengthen its internal control environment in a consistent, regulated and transparent way. It will also increase the level of confidence in EPL's service provision.

In 2016 work was begun to document relevant processes and identify controls. This will establish the EPL controls framework. EPL and its audit partner will undertake the first ISAE (NZ) 3402 review and production of the Phase II report in early 2017. 

OUR PEOPLE

We value our people. One of our key values is ‘work as a team.’ Education Payroll Limited (EPL) is as good as the people who work here. EPL recognises the need to make the best use of the skills and strengths of all our people.

EPL recognises that a strong organisational culture where people feel valued, connected and engaged 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 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. For EPL being a good employer is more than just meeting our statutory requirement, it’s about actively living our values to ensure we can increase our ability to attract, motivate and retain the skilled staff that we need.

EPL has established an open, trusted and collaborative culture. The Senior Leadership Team has developed a shared vision for the desired culture and the way we work. In the 2016/17 year this will be part of a wider organisational change programme. As part of that work SLT has refreshed EPL’s values. These now are:

make things easier – for everyone, including schools, partners and our colleagues

improve through understanding – use real information and evidence to identify what to improve

learn through doing – try things out, be practical and innovative

work as a team – bring all the strengths we have together to make things happen

treat everyone with respect – have a great working spirit with schools, the Ministry, partners and each other



**JEMAAL
RICHARDSON**
Payroll Adviser

It’s a fair distance from Puerto Rico to New Zealand but Jemaal Richardson has made the transition with style.

Originally hired on a five month contract as a service desk agent back in May 2013, Jemaal was backpacking with plans to travel through the Indian subcontinent.

Instead, three years and four months later, he is a payroll adviser with EPL.

So what does the company offer that could divert a bubbly, energetic Puerto Rican from his “big OE”?

“Initially it was the people. They were all so genuinely nice. I was all alone, no family or friends in New Zealand and I sort of got “adopted” – people were celebrating Christmas, thanksgiving and my birthday with me! And it wasn’t just work colleagues. I’ve found the education sector people are really nice. I’ve built some good relationships with them,” he says.

“Sector people are very appreciative of the work we do. They understand where we’ve come from and the challenges we face. They are keen to work with us to get things running better. We’re building a collective of people all working to the same end.”

Jemaal is excited by the importance and challenges of the work.

“The work that we’re doing is important and specialised. I started back in the “dark days” which was hard – but what struck me was the passion of the people here to fix it, to make it right. They stuck with it and that made me want to stick with it too.”

Jemaal says in the time he has been working on the education payroll things have gradually got better and better.

“And now we have the *Better Every Day* process. That’s going to make a huge difference when we get it all up and running. I’m super-excited to see it all come together – I think it will be fantastic.”

These values set the framework for the way EPL does things, how we treat each other, and how we treat our customers. These values help guide behaviours across EP.

OUR STAFF

At June 2016 EPL comprised a total of 138.9 positions made up of:

- an Operations group of 102.9
- a Technology group of 23
- a Corporate team of five
- a Portfolio Management Office of three and
- an Executive team of five.

EPL is a relatively young organisation with a small employee base. We supplement this base with third party resources. At the end of the period covered by this annual report the company had grown by 8.4 full time employees, up from 130.5 in June 2015. The new positions were established as part of the continuing work to improve service delivery. The Board and leadership team have placed significant emphasis on maintaining and building on the already strong culture and stabilising the workforce.

EPL leadership has focused on ensuring that its staffing configuration provides for an operational accountability and governance structure that supports EPL moving forward. One of the key drivers is the move toward a more customer centred focus. This is a focus for the new financial year and will 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.

In June 2016 we undertook consultation on a new organisational structure to further our ability to respond effectively to customers. Final decisions were taken in July and the implementation of the new structure will be phased in over the next few months.

Our permanent workforce is also supported by key partners who provide third party support to a number of specialist areas across EPL.

PEOPLE INITIATIVES

As part of its commitment to its people, EPL undertook the following people initiatives:

Leadership, Accountability and Culture

The Board and leadership of EPL are committed to ensuring the company is a good employer and has effective management practices, policies and procedures in place. The Senior Leadership Team has consistently communicated a vision for EPL and have created a culture in which its people feel valued.

Recruitment, Selection and Induction

EPL prides itself on being an equal opportunity employer and the principles underpinning the recruitment and selection process at EPL are those of fairness, credibility, and merit-based selection.

We use a variety of different means to recruit staff including direct advertising. We are committed to an equitable, systematic and consistent approach to recruitment and selection in order to attract, select and retain the most capable staff through open competition. A variety of processes, including structured interviews, have been used to ensure a fair and unbiased recruitment and selection process.

Capability Development

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.

The majority of our team leaders have now attended the Ministry of Social Development Leadership Development course. We have partnered with the State Services Commission to trial a government continuous improvement initiative. As part of the continual improvement method there has been a heavy focus on on-the-job training.

Reward and Recognition

EPL operates a robust performance management and remuneration system, with an emphasis on pay for performance and affordability. All employee remuneration is reviewed on an annual basis to

ensure that it is competitive with the wider market. All salary increases are based on merit and are awarded to recognise an employee's contribution and as compensation for their level of performance. The company has also established a monthly award programme where employees are recognised for going 'above and beyond' and demonstrating our values.

Policy Development

Over the last year, EPL has focused on implementing its policy work programme, and we have now implemented the majority of our HR policies.

Health and Safety

A key focus this year was on health and safety. Health and safety is a fundamental priority 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 has put in place an active Health and Safety Committee and we encourage 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 Responsible for Novopay 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 of Education 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, Annual Report, and Statement of Performance 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 three non-executive Directors appointed by Shareholding Ministers, following Cabinet approval. The directors during the 2015/16 year were: Dame Patsy Reddy (Chair), Murray Jack and Cathy Magiannis. Dame Patsy resigned from the Board effective 30 June 2016.

Dame Patsy Reddy is a professional director and consultant. Over the past 25 years she has had experience as a non-executive director of a range of New Zealand companies in both the public and private sectors. She is currently Chair of the NZ Film Commission, Deputy Chair of NZ Transport Agency, a non-executive Director of Payments NZ Ltd and Chief Crown Negotiator for Treaty Settlements in the Bay of Plenty region. Her previous roles include non-executive directorships of NZ Post, Air New Zealand, Telecom, Sky City Entertainment and



Southern Petroleum. She has been a member of the NZ Markets Disciplinary Tribunal and a partner in law firm Minter Ellison Rudd Watts. Dame Patsy has also been a lecturer in the Law Faculty at Victoria University of Wellington and a trustee of numerous not-for-profit arts and educational organisations. She is a Fellow of the Institute of Directors.

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.

The Board currently has one standing committee:

Audit and Risk Committee

The Audit and Risk Committee was chaired by Murray Jack in the 2015/16 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.

Directors for 2016-17

Two new directors were appointed for the 2016/17 financial year. They are Sandi Beatie and Marcel van den Assum. Due to the retirement of Dame Patsy Reddy, Murray Jack was appointed Chair of the Board. 

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 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 2016.

Signed on behalf of the Board.

A handwritten signature in black ink, appearing to be 'Murray Jack', written in a cursive style.

Murray Jack
Board Chair

16 September 2016



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 2016

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 her behalf.

Opinion on the financial statements and the performance information

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 2016, 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 that include accounting policies and other explanatory information; and
- the performance information of the Company on pages 4 to 12.

In our opinion:

- the financial statements of the the Company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards.
- the performance information:
 - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2016, including for each class of reportable outputs:
 - its standards of 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 16 September 2016. 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, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the the Company's financial statements and the performance information 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 the Company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the directors;
- the appropriateness of the reported performance information within the Company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information.

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

Responsibilities of the directors

The directors are responsible for preparing the financial statements and the performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the the Company's financial position, financial performance and cash flows; and
- present fairly the the Company's performance.

The directors' responsibilities arise from the Crown Entities Act 2004.

The directors are responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the performance information that are free from material misstatement, whether due to fraud or error. The directors are also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to this audit, we have initiated an assignment in relation to a Type 1 ISAE (NZ) 3402 assessment for the Company as a Service Organisation which is compatible with these independence requirements. Other than this assignment, 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 16 September 2016.

STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES FOR THE YEAR ENDED 30 JUNE 2016

Year ended 30 June 2016	Notes	\$000 2016 Actual	\$000 2016 Budget	\$000 9 months Period 2015* Actual
Revenue from exchange transactions				
Sales of Services to Government	1	27,480	27,132	18,796
Total Operating Revenue		27,480	27,132	18,796
Expenses				
Personnel Expenses	15	9,475	10,001	5,177
Third Party Support		7,969	7,580	6,554
Corporate Expenses	7	813	692	499
Auditor's Remuneration	8	47	40	38
Directors' Fees	14	119	54	50
Travel & Entertainment		79	55	32
Accommodation & Facilities		913	968	534
ICT Costs		4,828	4,702	3,480
Depreciation & Amortisation		3,427	3,529	2,414
Total Operating Expenses		27,670	27,621	18,778
Other comprehensive revenue				
Gain on asset disposal		2	-	-
Total other comprehensive revenue		2	-	-
Finance income				
Interest Received		93	58	58
Finance expenses				
Interest expense		24	34	21
Total Finance Costs		69	24	37
Total surplus/(deficit) for the period		(119)	(465)	55
Total comprehensive income		(119)	(465)	55

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

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

As at 30 June 2016	Notes	\$000 2016 Actual	\$000 2016 Budget	\$000 2015* Actual
Current Assets				
Cash and cash equivalents		7,225	4,458	3,580
Receivables from exchange transactions	2	-	2,600	4,565
Prepayments		1,128	603	630
Total Current Assets		8,353	7,661	8,775
Non-Current Assets				
Property, Plant and Equipment	3	1,650	1,964	1,099
Intangible Assets	4	16,647	16,908	18,920
Work In Progress		2,123	1,842	246
Total Non-Current Assets		20,420	20,714	20,265
Total Assets		28,773	28,375	29,040
Represented by				
Current Liabilities				
Finance Lease Liability (Current Portion)	6	216	216	205
Accruals and Payables	5	2,530	2,675	2,587
Employee Entitlements		459	262	345
Total Current Liabilities		3,205	3,153	3,137
Non-Current Liabilities				
Finance Lease Liability (Term Portion)	6	112	112	328
Total Non-Current Liabilities		112	112	328
Net Assets		25,456	25,110	25,575
Shareholders' Funds				
Capital Contributions	18	25,520	25,055	25,520
Retained Earnings		(64)	55	55
Total Shareholders' Funds		25,456	25,110	25,575

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

Explanations of major variances against budget are provided in note 19.

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	\$000 2016 Actual	\$000 2016 Budget	\$000 9 months Period 2015 Actual*
Opening Balance as at 1 July 2015	25,575	25,575	-
Movements:			
Capital Contributions	-	-	25,520
Total Comprehensive Income for the Year	(119)	(465)	55
Balance as at 30 June 2016	25,456	25,110	25,575

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

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

Year ended 30 June 2016	Notes	\$000 2016 Actual	\$000 2016 Budget	\$000 9 months period 2015* Actual
Cashflows from Operating Activities				
Receipts from Sales of Services for Government		32,184	29,151	14,417
Receipts from Interest Received		93	58	58
		32,277	29,209	14,475
Payments to Suppliers		15,535	14,125	9,204
Payments to Employees		9,302	10,001	5,044
		24,837	24,126	14,248
Net cash inflows from Operating Activities	10	7,440	5,083	227
Cashflows from Investing Activities				
Payments:				
Purchase of Fixed Assets		1,691	4,000	2,495
Payment of Work In Progress items		1,876	-	-
		3,567	4,000	2,495
Net Cash(Outflows) from Investing Activities		(3,567)	(4,000)	(2,495)
Cashflows from Financing Activities				
Receipts:				
Proceeds from capital contributions		-	-	6,000
		-	-	6,000
Payments:				
Repayments of Finance Lease		228	205	152
Net Cash (Outflows)/Inflows from Financing Activities		(228)	(205)	5,848
Net increase in cash and cash equivalents		3,645	878	3,580
Cash and cash equivalents at beginning of period		3,580	3,580	-
Cash and Cash Equivalents at the end of the period		7,225	4,458	3,580
Represented by:				
Cash at Bank		7,225	4,458	3,580
		7,225	4,458	3,580

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

Explanations of major variances against budget are provided in note 19.

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

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 2015 to 30 June 2016.

EPL's primary objective is to deliver the 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 2015/16 budget was adopted by the Board on 20 August 2015.

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. These 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 cost. Cost is deemed to be at fair value where assets are 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.

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 2016	\$000 2015
Receivables from exchange transactions	-	2,406
Accrued Income	-	2,159
Total Receivables from exchange transactions	-	4,565

3. PROPERTY, PLANT AND EQUIPMENT

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
Capital contributions	-	-	-	-	-
Additions	70	737	43	197	1,047
Disposals	-	-	-	-	-
Less Accumulated Depreciation	(44)	(621)	(34)	(85)	(784)
Closing balance at 30 June 2016	232	1,025	65	329	1,650

9 months period ended 30 June 2015	\$000 Furniture & Fittings	\$000 ICT Equipment	\$000 Office Equipment	\$000 Leasehold Improvements	\$000 Total
Opening Balance	-	-	-	-	-
Capital contributions	206	943	42	217	1,408
Additions	-	13	15	-	28
Disposals	-	(47)	(1)	-	(48)
Less Accumulated Depreciation	(17)	(230)	(13)	(29)	(289)
Closing balance at 30 June 2015	189	679	43	188	1,099

The net carrying amount of the ICT equipment held under a finance lease is \$293,906 (compared with \$497,317 in 2015).

4. INTANGIBLE ASSETS

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
Capital contributions	-	-	-	-	-
Additions	644	-	-	-	644
Disposals	-	-	-	-	-
Less 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

9 months period ended 30 June 2015	\$000 Developed Software	\$000 Purchased Software	\$000 Software Licences	\$000 Other Intangibles	\$000 Total
Opening Balance	-	-	-	-	-
Capital contributions	7,125	60	7,592	4,000	18,777
Additions	1,034	-	1,187	-	2,221
Disposals	-	-	-	-	-
Less Accumulated Depreciation	(712)	(33)	(833)	(500)	(2,078)
Closing balance at 30 June 2015	7,447	27	7,946	3,500	18,920

5. ACCRUALS AND PAYABLES

	\$000 2016	\$000 2015
Creditors	1,308	1,951
Accrued expenses	1,222	636
Total creditors and other payables	2,530	2,587

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 2016	\$000 2016	\$000 2015
Minimum lease payments payable:		
Within one year	216	228
Later than one year and not later than five years	112	342
Later than five years	-	-
Total minimum lease payments	328	570
Future finance charges	(14)	(37)
Present value of minimum lease payments	314	533
Present value of minimum lease payments payable:		
Within one year	216	205
Later than one year and not later than five years	112	328
Later than five years	-	-
Total finance lease	328	533
Represented by:		
Current	216	205
Non-current	112	328
Total finance leases	328	533

7. CORPORATE EXPENSES

	\$000 2016	\$000 9 months period 2015*
Corporate Expenses		
Board Expenses	-	-
Bank Fees	3	3
Fringe Benefit Tax	33	6
Insurance	27	30
Mail/Courier	25	12
Other Corporate Costs	40	9
Payslip Printing and Postage	419	294
Sponsorship	4	-
Stationery, Printing & Photocopying	256	145
Catering Costs	5	-
Other: Cost Recovery Expenses	1	-
	813	499

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

8. AUDITOR'S REMUNERATION

EY provides audit services to EPL. Total amount recognised as an audit expense was \$46,500 (compared with \$38,000 in 2015). In addition to the fees related to the audit of the financial statements on behalf of the Auditor-General, a further \$32k was spent with EY on the development of a Type 1 ISAE (NZ) 3402 assessment for the company as a service organisation.

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 2016	\$000 2015
Loans and receivables:		
Cash and cash equivalents	7,225	3,580
Receivables from exchange transactions	-	4,565
	7,225	8,145
Financial liabilities at amortised costs:		
Accruals and other payables	2,530	2,587
Finance Lease	112	533
	2,642	3,120

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

	\$000 2016	\$000 9 months period 2015*
Net surplus/(deficit)	(119)	55
Add/(less) non-cash items		
Depreciation and amortisation expense	3,427	2,414
Add/(less) movements in statement of financial position Items		
Trade Debtors	2,406	(2,406)
Accrued Income	2,159	(2,159)
Prepayments	(525)	(630)
Trade and Other Payables	(644)	1,952
Accruals & Provisions	610	635
Employment entitlements	114	345
Net movements in working capital items	4,120	(2,263)
Add/(less) movements in classified as Investing Activities		
Finance lease	12	21
Net Cash flow from Operating Activities	7,440	227

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

11. CAPITAL COMMITMENTS

EPL has contracted commitments for the development of property, plants and equipment or intangible assets as at 30 June 2016 of \$412,948 (compared with nil in 2015).

12. OPERATING LEASES AS LESSEE

Future minimum rental payable operating leases as at 30 June 2016 are as follows:

30 June 2015	\$000 2016	\$000 9 months period 2015*
Not later than one year	716	499
Later than one year and not later than five years	3,113	1,995
Later than five years	-	821
Total non-cancellable operating leases	3,829	3,315

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 five years.

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

In 2015/16 financial year, a number of staff from EPL were relocated into a new premises. EPL is the head tenant for this 5-year lease, and this is reflected in the lease commitments above.

EPL now have two lease properties, which expire in 2021 and 2022, respectively with an option to renewal.

13. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or contingent liabilities at the reporting date.

14. BOARD OF DIRECTOR'S REMUNERATION

The total value of remuneration paid or payable to each Board member during the year was

(9 months)	\$000 2016	\$000 9 months period 2015*
Dame Patsy Reddy Chair	63	30
Murray Jack	29	20
Cathy Magiannis	27	-
Total Board member remuneration	119	50

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

The board of EPL comprised of three directors; Dame Patsy, Murray Jack and Cathy Magiannis.

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.

15. EMPLOYEE REMUNERATIONS

	\$000 2016	\$000 9 months period 2015*
Wages and salaries	8,366	4,083
Other personnel costs	1,109	1,094
Personnel Expenses	9,475	5,177

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

The amounts above include the remuneration of key management personnel.

The table below show total remuneration received by EPL employees which is or exceeds \$100,000 per annum as at 30 June 2016

\$ Remuneration band	2016 Number of Employees	2015 Number of Employees
390,000 to 399,999	1	
320,000 to 329,999		1
260,000 to 269,999	1	
240,000 to 249,999	1	
230,000 to 239,000	1	1
200,000 to 209,999		1
190,000 to 199,999		1
180,000 to 189,999		1
120,000 to 129,999	3	1
110,000 to 119,999	2	1
100,000 to 109,999	4	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, 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:

	\$000 2016	\$000 9 months period 2015*
Key management personnel remuneration		
Senior management	924	658
Board	119	50
Number of persons recognised as key management personnel	7	7

* EPL was established on the 17th October 2014. The comparative figures for 2015 are based on 9 months of activity.

16. EVENTS AFTER REPORTING DATE

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

17. 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.

18. EQUITY & CAPITAL MANAGEMENT

Capital contributions comprise of assets from the settlement of the 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.

19. EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanations for major variances from EPL's budgeted figures in the Statement of Performance Expectations are as follows:

Statement of financial position

Cash and cash equivalents

Cash and cash equivalents was more than budgeted by \$2.767m, this was attributed to a change in our invoicing practice with the Ministry of Education. In 2015 EPL operated under a time and material basis where services relating to the current month were billed at the end of the month, with payment on the 20th of the following month.

From 1 July 2016 EPL operated under a new Service Level Agreement with the Ministry of Education. Under the new agreement EPL was required to operate within a Fixed Pricing Model and an amendment was made to the invoicing process. Services were billed in the 1st of the month and payment was received during the month the services was rendered.

This increased cash as revenue related to June 2015 was paid in 2016 and revenue for the full-year was paid in full. Consequently, cash inflows for receipts from Sales of Services were more than budgeted.

Receivables from exchange transactions

As a result of the changes outlined above, no receivables were recorded as the debt was cleared during the period. ☰



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