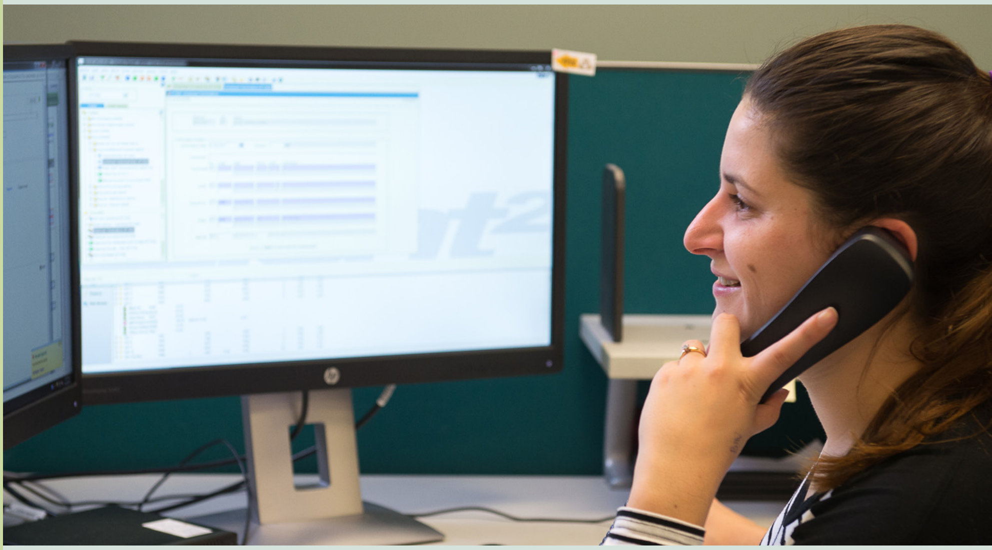
EDUCATION PAYROLL
Rārangi Utu ā-Mātauranga

ANNUAL REPORT



2018

Published in SEPTEMBER 2018
Education Payroll Limited

This Annual Report is submitted by the Board of Education Payroll Limited (EPL) which is accountable to EPL's two shareholding Ministers, the Ministers of Finance and Education, as set out in the Crown Entities Act 2004.

2018

EDUCATION PAYROLL LIMITED

ANNUAL REPORT

CONTENTS

BOARD CHAIR'S FOREWORD

We are pleased to present our performance, achievements and financial statements for another year, ending 30 June 2018.

Since our last Annual Report, Education Payroll Limited (EPL) has made significant improvements in the delivery of the payroll service to schools, teachers and all support staff. We continue to help schools deliver quality education for New Zealand.

After the approval of the Detailed Business Case for a better payroll system in 2016, this year saw the successful formation of the Education Payroll Development Programme (EPDP). The programme will ensure that schools payroll remains robust and sustainable into the future, while improving on current processes.

Our School Accounts Team model remains one of our biggest successes. Feedback from schools tells us that the model is vital for assisting Authorised Users with payroll and they love having a single point of contact for all inquiries.

End of Year/Start of Year remains our busiest time of year and our processes have improved in assisting schools with completion. The adoption of *Better Every Day* and *AGILE* working environments continue to embed throughout the business, allowing structured change, design and implementation.

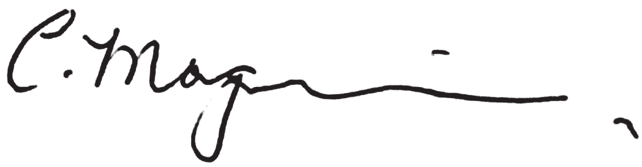
We achieved our highest ever Customer Satisfaction results with "Overall Satisfaction" peaking at 86% in the fourth quarter of 2017 – a great indication that our customer-centric focus is making a big difference with schools.

In February we welcomed our new Chief Executive, Arlene White, who comes to EPL with significant experience in large service delivery and leadership roles. We thank our out-going Chief Executive, Stephen Crombie for the strong contribution he made to the establishment and on-going development of EPL. On behalf of the Board we also thank all our staff at EPL for their efforts over the past year.

EPL is looking forward to the year ahead as the effects of EPDP, along with other continuous improvement methods, continue to show positive change to the overall payroll service, ensuring its future sustainability.

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

Murray Jack
Board Chair
19 September 2018



Cathy Magiannis
Chair of Audit and Risk Committee
19 September 2018

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 100,000 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 6,800 payroll administrators in those school.

Each fortnightly pay period we pay out about $190 million (gross)

Every year we manage payments valued at over $4.9 billion per annum. That's about five percent of 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.

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

Our services include:

- Providing guidelines and communications to schools
- Answering queries from schools about their payroll
- Providing school employees with a payslip
- Assurance and controls
- Administering third party payments (e.g. ACC, KiwiSaver, student loans)
- Overpayment debt recovery
- Conducting salary assessments
- Payroll reporting to schools and MoE

Our services were delivered from our Wellington and Christchurch service centres.

A FORTNIGHT IN THE LIFE OF EPL

EVERY FORTNIGHT EPL RECEIVES ABOUT:

13,100 instructions from school administrators

5,500 phone calls

THE MAIN REQUESTS WE GET ARE TO MANAGE:

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

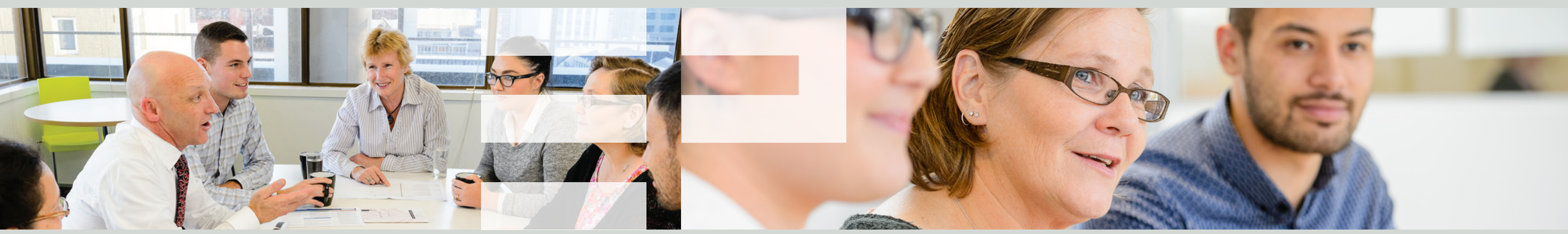
STATEMENT OF PERFORMANCE

For the 2017/18 financial year, EPL's performance was guided by the 2017/18 Statement of Performance Expectations and the 2016–2020 Statement of Intent.

EPL delivers one output, which is the effective delivery of schools' payroll service. 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 2018	2018 Actual $000	2018 Budget $000	2017 Actual $000
Total revenue	27,737	24,810	25,849
Total expenditure	26,881	24,810	26,845
Surplus/(deficit)	**856**	**0**	**(996)**



We measure our success with the following key performance indicators, many of which are new for the 2017/18 year:

CORE PAYROLL SERVICE

Services which relate to the accurate provision of payments and entitlements to school employees.

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2017/18	STANDARD 2017/18	ACTUAL 2016/17
ACCURACY				
Payroll payments to eligible teachers and schools support staff are accurately calculated	Percentage of employees paid excluding requests, by exception, to correct payments to employees and pay impacting tickets not processed in the current fortnight	99.8%	99.5%	99.8%
Payroll Instructions submitted 'right first time' by schools	Percentage of payroll instructions received from schools that can be processed first time without being returned for further information	81.5%	80%	New measure in 2017/18
TIMELINESS				
Payroll payments to eligible teachers and school support staff which are sent to financial institutions on time in order to be processed on or before advised pay dates	Percentage of employees paid excluding the employees receiving a manual pay in the fortnight following the advised pay date	100%	99.5%	99.5%
QUALITY				
Customer satisfaction	Percentage of survey respondents satisfied with the overall quality of the service delivery and the support they receive from EPL	80.3%	70%	67%

DEBT MANAGEMENT

Notification, recovery and administration of payroll-related overpayments.

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2017/18	STANDARD 2017/18	ACTUAL 2016/17
ACCURACY				
New overpayments created	Percentage reduction in new overpayments created compared with the previous year	21.7%	15%	New measure in 2017/18
TIMELINESS				
Debt notification made on time	Debtors will receive their first notification of debt within 15 working days of the debt being discovered	100%	100%	New measure in 2017/18

SALARY ASSESSMENT

Assessment of teachers' qualifications and relevant experience to determine the correct salary and ensure correct salary payments.

We receive approximately 8,000 assessments each year.

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2017/18	STANDARD 2017/18	ACTUAL 2016/17
ACCURACY				
Notification of errors related to salary assessment determinations	Percentage of transactions received and completed that did not result in notification of errors from schools, employees, the Ministry of Education, or an overpayment related to incorrect salary assessment	99.8%	99.5%	New measure in 2017/18
TIMELINESS				
Salary assessments processed on time	Accurate assessments will be processed within 15 working days from date of receipt	100%	100%	New measure in 2017/18

ACC ADMINISTRATION

Processing and administration of ACC claims on behalf of schools, in accordance with the Employment Reimbursement Agreement with the Ministry.

We process approximately 1,900 ACC claims a year.

PERFORMANCE MEASURE	DESCRIPTION	ACTUAL 2017/18	STANDARD 2017/18	ACTUAL 2016/17
ACCURACY				
Notification of errors related to ACC claims	Percentage of transactions received and completed that did not result in notification of errors from schools, employees, the Ministry of Education, ACC, or an overpayment related to incorrect processing of an ACC claim	99.7%	99.5%	New measure in 2017/18

OUR ACHIEVEMENTS

The 2017/2018 year focused on improving our high level of service to our customers and the education sector as a whole, while beginning a journey towards a new online digital user interface via our Education Payroll Development Programme (EPDP).

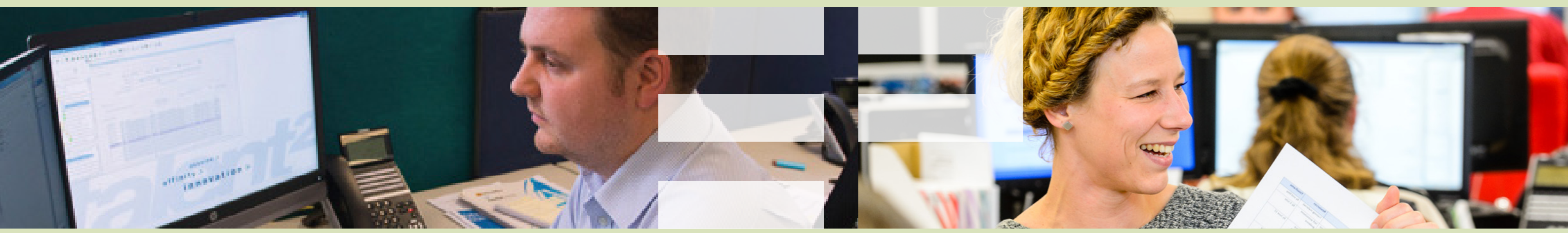
FORTNIGHTLY PAY CYCLE

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 2017/18 EPL has successfully managed the delivery of the pay accurately and on time for all fortnights.

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



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 closing 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.

In 2017/18 the delivery of services across the EoY/SoY ran smoother than previous years due to a more efficient allocation of time and resources. Before the EoY/SoY period, we involved 45 schools in a reference group and asked them what would assist with understanding instructions. The outcome was a decision tree, which we called a "Roadmap" guiding them to the relevant parts of the instructions.

We co-designed this tool with the schools, and tested with a small group. The feedback received was positive and so we made these available for all schools.

We saw a substantial reduction in school referrals, and did not require additional staff to manage these. We sent out a survey following the 2017/18 End of Year/Start of Year to all schools, who told us that the Roadmap was key to them successfully completing the process.

During the whole EoY/SoY period, all key performance indicators were met.

EoY/SoY STATISTICS

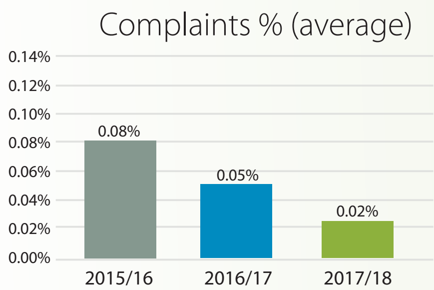
EoY self-paced learning module –
725
individual users accessed the EoY module
1,686 times

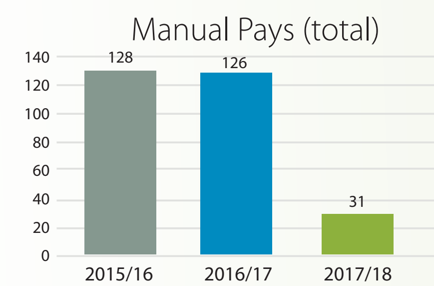
EoY eWorkshops –
110
sessions were held, covering 368 participants from 365 schools.

SoY self-paced learning module –
401
individual users accessed the SoY module
1,406 times

SoY eWorkshops –
30
sessions were held, covering 130 participants from 119 schools

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





BETTER EVERY DAY

In 2017/18 EPL remained committed to the State Service Commission's *Better Every Day* continuous improvement method, delivering an end-to-end customer-centric operating model.

Better Every Day practitioners continue to champion the approach throughout EPL, ensuring it is at the forefront of all decision-making. These practitioners were selected across the business in order to provide cross-functional insight and experiences into different areas of the company.

Better Every Day means constantly seeking simplification to minimise exceptions and improve flow, and actively working with users to reduce failure demand and get things right first time.

We work closely with the sector and users of the payroll service to understand what they really want and what improvements will make the biggest difference for them.

Smart Forms

Data analysis of tickets received from schools showed us that on average, 50% of tickets received were handwritten. Using handwritten forms causes issues for both schools and our payroll advisers. These forms can easily be misinterpreted and may also cause pay-impacting errors or delays.

Smart Forms are regularly kept updated and include drop downs to make entering data easier for schools. If schools choose to print off these forms it can't be guaranteed they are using the latest version or that they will be able to see information included in the drop downs.

We tested a drop dead date for not accepting handwritten instructions, which was 30 April 2018. This helped us to understand what support schools needed to successfully transition to Smart Forms. Our approach was to communicate this early and work closely with the schools up until the deadline.

As a result, in April we achieved 99% uptake of Smart forms across all schools. This initiative has increased school administrator capability with using online forms, which is a great first step towards schools going fully digital.

Christchurch Office Closure

The decision was made in March 2018 to close the Christchurch office. A third party provider managed EPL's debt management and salary assessment at this location. These specialised services were transferred to the Wellington office in August 2018.

Debt Management and Salary Assessment

Using the *Better Every Day* methodology, we listened to schools to validate their issues around these processes and develop alternative solutions. Both processes were seen as highly manual, paper-based and complex for schools.

We co-designed the new debt management and salary assessment process with our customers to ensure it worked for schools. We expect to see a reduction in effort for schools and for us. The teams will continue to look for improvements in the work.

EDUCATION PAYROLL DEVELOPMENT PROGRAMME

The Detailed Business Case for the digital strategy for the Schools' Payroll was approved in late 2016 and the Education Payroll Development Programme (EPDP) has been established to implement a fully on-line service by 2020. This investment will provide a sustainable, compliant and cost-effective payroll system for the next decade.

EPDP uses the AGILE methodology which involves user-centric design, testing and feedback processes, and staged implementation to build familiarity and assurance. Key benefits for working this way include:

- Deliver value earlier in increments
- Reduced risk through early identification and resolution
- Increased built-in quality, less defects
- Allows the business to respond to change
- Enable learning as we go

Over the year, EPDP focussed on setting up the programme baseline, organising the product groups and planning a roadmap of delivery. It began work on a New User Interface to replace Novopay Online and updated core technological components to extend the longevity of the payroll system.

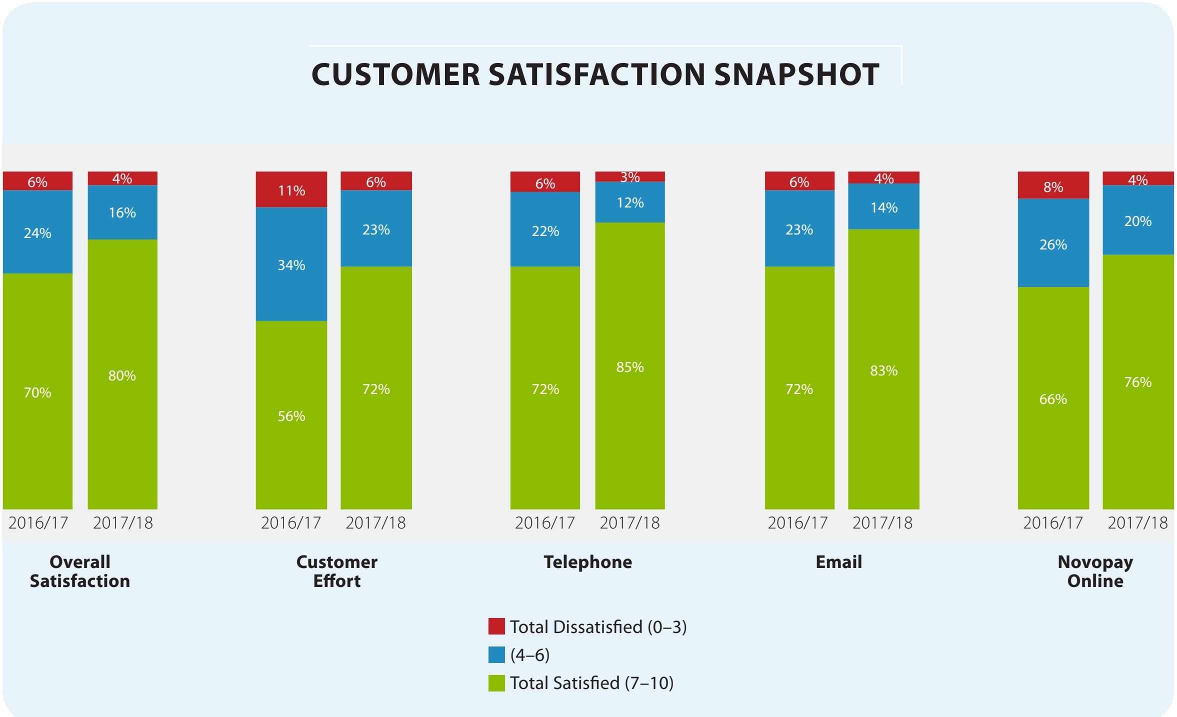
VALUING OUR CUSTOMER

CUSTOMER SATISFACTION

In 2016 EPL introduced a quarterly online customer satisfaction survey with authorised users of the schools payroll. In 2017/18 our average results remained consistently high throughout the year with "Overall Satisfaction" peaking at 86% in the fourth quarter of 2017.

Based on feedback from the schools, we continue to make improvements to the service, including updates to NOVO forms, ensuring advice is consistent across payroll advisers, and increasing online functionality.

The graph below is a snapshot of the average result for 2017/18 compared with the previous year.



THE SECTOR

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

We remain active with leaders in the education sector, holding regular meetings where payroll issues and developments are discussed. We take perspectives from the sector into account for our planning. The contributions from sector leaders have been invaluable.

TECHNOLOGY AND SUSTAINABILITY OF THE PAYROLL SYSTEM

The core payroll system continues to be stable with availability maintained at 100% during the year. The focus is now on the upgrade of the current technology stack and re-design of a more customer-centric interface.

Infrastructure Resilience
We have replaced aging storage, thereby increasing capacity and resilience for disaster recovery. Network perimeter security infrastructure has been upgraded to improve border protection capability. The ticketing system that manages all sector instructions was upgraded to remove potential points of failure and improve allocation of instructions to work teams.

Technology Risk Reduction
Several initiatives have been undertaken by EPL to continue building on its risk reduction and maturing EPL's security practises. We continuously refresh technology services to ensure a sustainable future.

Better Every Day
Better Every Day has been embraced by technology teams, with several system improvements being delivered to our customer over the year, a focus on driving value from our vendors, cost out where appropriate and continued process/policy enhancements.

Education Payroll Development Programme
Foundational activity to support the transition to a more digital payroll service is well in progress, including confirmation and configuration of the new technology stack, procurement of vendor services and associated enabling and mobilisation activity. Additionally, blueprints for the Payroll Service along with Service Design requirements were completed.

AGILE development maturity has continued to increase with over 90% adoption. One area of focus has been increased built-in quality via automated testing and deployment and automated test suite development. The teams operate within sprint "Program Increments", adopting Continuous Improvement practices of integrating code regularly. Dev/Ops tools to release software more regularly continue to be embedded.

Progressive release of software to the school user community is scheduled in the next financial year.

Improvements to Payroll System
The core payroll system has been enhanced in the areas of improving Long Service Leave, implementation of numerous reconciliation and control reports, and optimisation of processing times of key batch processing functions. Work is in progress for improving Attestations and Funding functions.

MANAGING CORPORATE RISK

An enterprise risk management framework based on ISO 3001 is in place. The senior leadership team reviews and updates the corporate risk register regularly. The Ministry, through the Operations Board, receives EPL risk reports every fortnight. The Audit and Risk Committee meets quarterly to discuss and follow-up on key and emerging risks.

A mature incident management framework and process compliments EPL's risk management programme. It proactively manages incidents from investigation to closure and lessons learnt reporting in place. A recent privacy risk assessment based on the Privacy Maturity Assessment Framework (PMAF) has shown EPL to have a good level of maturity.

Assurance and Controls Environment
The Assurance Framework, based on the 'Three Lines of Defence', guides the activities and performance of the assurance function. Since the commencement of audit reviews in August 2017, the team has issued 25 audit reports and completed its risk-based audit plan for 2017/18. The team has adopted the Payroll Assurance Framework issued by the Ministry of Education and incorporated its requirements into the EPL Assurance Plan for 2018/19.

.

OUR PEOPLE

We value our people and recognise that Education Payroll Limited is as good as those who work here. Our people have a wide variety of strengths and skills and we're always looking for the best way to utilise this diverse range of talent.

EPL strives for a strong organisational culture where people feel valued, connected and engaged.

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

EPL'S VALUES

Make things easier
for all our customers and colleagues

Improve through understanding
use evidence to find solutions for changing needs

Learn through doing
try things out, be practical and innovative

Work as a team
bring all our strengths together to make things happen

Treat everyone with respect
value and trust each other, to build a great working spirit

OUR STAFF

At June 2018 EPL had a total of 165 approved positions made up of:

- an Operations group of 127
- a Technology group of 23
- a Corporate team of 9
- an Executive team of 6.

EPL has 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 Operations group has grown since June 2017, primarily on account of the additional staff needed to support EPDP and the establishment of debt management and salary assessment teams in Wellington. EPL aims to attract, develop and retain staff with the capability needed to achieve high quality results for all our customers.

Payroll advisers remain the heart of EPL and the School Accounts Team model implemented in 2016 remains popular with customers and staff. While remaining a more customer-focussed model, it also allows new advisers to fully train for the role in a fraction of the time by placing them in teams with multiple levels of capability.

DEVELOPING OUR PEOPLE

EPL supports the development and growth of its employees. New opportunities frequently arise within the organisation as the company matures and EPL encourages current staff to build capability by moving into these roles. Our continuous improvement methods emphasise "on-the-job training", allowing staff to "learn through doing".

STAFF ENGAGEMENT

EPL undertook its third Staff Engagement Survey in May 2018. We achieved a high participation rate with over 80% of staff and third party providers completing the survey. Overall, 'engaged staff' continues to increase – up another 4% from the previous year.

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

HEALTH, SAFETY AND WELLNESS

The Health and Safety Committee meets regularly and encourages active participation from all staff in order to maintain a safe and supportive environment. We communicate health and safety tips to employees on a regular basis, while still maintaining a full suite of policies and procedures.

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 a Statement of Intent, an Annual Report and a Statement of Performance Expectations 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 2017/18 year were: Murray Jack (Chair), Sandi Beatie, Marcel van den Assum and Cathy Magiannis.

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 consulting 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.

Sandi Beatie is Chair of the Archives Council and serves on the Risk & Assurances Committees for the Department of Prime Minister & Cabinet and Inland Revenue.

She undertakes part-time consultancies for independent review/inquiry work. Sandi is also a Lead 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+ years and included a range of senior executive and consulting roles in both the public and private sectors.

She served as the Statutory 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 hones 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 Simplyheath 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 the Angel Association of NZ, founding investor in Lightning Lab 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 five 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. Alongside family and friends, art, music, mountain biking and snowboarding, food and travel are Marcel's interests.

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 has one standing committee:

Audit and Risk Committee

The Audit and Risk Committee was chaired by Cathy Magiannis in the 2017/18 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.

Signed on behalf of the Board.

Murray Jack
Board Chair

19 September 2018

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 June 30 2018.

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 2018

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 23 to 38, that comprise the statement of financial position as at 30 June 2018, 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 7.

In our opinion:

- the financial statements of the Company on pages 23 to 38:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; 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 7:
  - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2018, including for the 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 19 September 2018. This is the date at which our opinion is expressed.

The basis for 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 and the Public Finance Act 1989.

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 8 to 18, 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 perform an independent assurance engagement of the education payroll services provided by Education Payroll Limited for the Ministry of Education. Other than this engagement and the 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 19 September 2018.

STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES FOR THE YEAR ENDED 30 JUNE 2018

Year ended 30 June	Notes	Actual $000 2018	Budget $000 2018	Actual $000 2017
Revenue from exchange transactions				
Sales of Services to Government	1	27,807	24,810	25,755
Insurance Recoveries relating to Kaikoura		(70)	-	80
Total Operating Revenue		**27,737**	**24,810**	**25,835**
Expenses				
Personnel Expenses	14	9,365	9,952	9,269
Third Party Support		6,300	2,747	5,820
Corporate Expenses	7	562	676	635
Auditor's Remuneration	8	48	48	47
Directors' Fees	13	139	140	136
Travel & Entertainment		48	91	63
Accommodation & Facilities		1,069	1,183	1,626
ICT Costs		5,072	5,240	5,115
Depreciation & Amortisation		3,856	4,743	3,822
Total Operating Expenses		**26,459**	**24,820**	**26,533**
Non-operating items				
Loss on asset disposal		425	-	300
Total Non-operating items		**425**	**-**	**300**
Finance income				
Interest Received		4	12	14
Finance expenses				
Interest expense		1	2	12
Total Non-operating items		**3**	**10**	**2**
Total income/(deficit) for the year		**856**	**-**	**(996)**
Total comprehensive income		**856**	**-**	**(996)**

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 2018

As at 30 June	Notes	Actual $000 2018	Budget $000 2018	Actual $000 2017
Current Assets				
Cash and cash equivalents		3,477	4,886	5,689
Receivables from exchange transactions	2	62	-	356
Prepayments		1,060	1,029	1,029
Total Current Assets		**4,599**	**5,915**	**7,074**
Non-Current Assets				
Property, Plant and Equipment	3	1,846	897	1,406
Intangible Assets	4	16,020	16,838	15,752
Work In Progress		5,637	2,950	3,640
Total Non-Current Assets		**23,503**	**20,685**	**20,798**
Total Assets		**28,102**	**26,600**	**27,872**
Represented by				
Current Liabilities				
Finance Lease Liability (Current Portion)		-	-	112
Accruals and Payables	5	2,161	1,715	2,378
Employee Entitlements		535	400	471
Other Provisions		90	-	451
Total Current Liabilities		**2,786**	**2,115**	**3,412**
Total Liabilities		**2,786**	**2,115**	**3,412**
Net Assets		**25,316**	**24,485**	**24,460**
Shareholders' Funds				
Capital Contributions	17	25,520	25,520	25,520
Retained Earnings		(204)	(1,035)	(1,060)
Total Shareholders' Funds		**25,316**	**24,485**	**24,460**

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 CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Actual $000 2018	Budget $000 2018	Actual $000 2017
Opening Balance as at 1 July	24,460	24,485	25,456
Movements:			
Total Comprehensive Income for the Year	856	-	(996)
Balance as at 30 June	**25,316**	**24,485**	**24,460**

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

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

Year ended 30 June	Notes	Actual $000 2018	Budget $000 2018	Actual $000 2017
Cashflows from Operating Activities				
Receipts from Sales of Services for Government		28,033	28,532	25,337
Receipts from Interest		4	12	14
Receipts from Other Income		10	-	5
Cash inflows from Operating Activities		**28,047**	**28,544**	**25,356**
Payments to Suppliers		14,112	12,234	13,366
Payments to Employees		9,283	12,453	9,226
Cash outflows from Operating Activities		**23,395**	**24,687**	**22,592**
Net cash inflows from Operating Activities	10	**4,652**	**3,857**	**2,764**
Cashflows from Investing Activities				
Payments:				
Purchase of Tangible and Intangible Assets		6,750	4,110	4,072
Cash Outflows from Investing Activities		**6,750**	**4,110**	**4,072**
Net Cash Outflows from Investing Activities		**6,750**	**4,110**	**4,072**
Cashflows from Financing Activities				
Payments:				
Repayments of Finance Lease	6	114	112	228
Cashflows Outflows from Financing Activities		**114**	**112**	**228**
Net Cash Outflows from Financing Activities		**114**	**112**	**228**
Net increase/(decrease) in cash and cash equivalents		**(2,212)**	**(365)**	**(1,536)**
Cash and cash equivalents at beginning of the Year		5,689	5,251	7,225
Cash and cash equivalents at the end of the Year		**3,477**	**4,886**	**5,689**
Represented by:				
Cash at Bank		3,477	4,886	5,689
		3,477	**4,886**	**5,689**

The accompanying notes should be read in conjunction with 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 year 1 July 2017 to 30 June 2018.

EPL's primary objective is to deliver school payroll services 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 23 June 2017.

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	6 to 12 years
ICT equipment	1 to 11 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 development 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 13 years
Developed Software	2 to 13 years
Purchased Software	1 to 3 years
Other Intangibles	4 to 10 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 of Education. 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 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 to 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

Each year 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 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 the 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

Values are inherently subjective, and require the use of judgement.

Intangible Assets that qualify for recognition shall initially be recognised at cost. Cost is deemed to be at fair value where an intangible asset is acquired at no cost or nominal value. After initial recognition, 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 amortised for accounting purposes. This may require the Project Manager to seek the professional assistance of other experts such as engineers, developers or other technical experts.

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.

Classification of expenditure

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.

Provisions

Specific provisions for historic liabilities 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 properties.

Going Concern

To maintain adequate working capital and support investment in intangible assets created during the Education Payroll Development Programme (EPDP), EPL has secured a line of credit from the Crown. Based on the Detailed Business Case for the EPDP, the loan is required and has been secured for a period of 6.5 years. Further details of the loan are included in note 6 "Borrowings Facility".

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 2018	$000 2017
Receivables from exchange transactions	62	356
Total Receivables from exchange transactions	**62**	**356**

3. PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2018	$000 Furniture & Fittings	$000 ICT Equipment	$000 Office Equipment	$000 Leasehold Improvements	$000 Total
Opening Balance	314	2,246	106	34	2,700
Additions	233	736	0	320	1,316
Disposals	(143)	(1,079)	(7)	(34)	(1,263)
Closing cost	404	1,930	99	320	2,753
Less accumulated depreciation					
Opening accumulated depreciation	(55)	(1,161)	(54)	(24)	(1,294)
Depreciation for the year	(52)	(464)	(9)	(30)	(555)
Accumulated depreciation written off on disposal	55	857	5	25	942
Closing accumulated depreciation	(52)	(768)	(58)	(29)	(907)
Closing balance at 30 June 2018	**352**	**1,162**	**41**	**291**	**1,846**

Year ended 30 June 2017	$000 Furniture & Fittings	$000 ICT Equipment	$000 Office Equipment	$000 Leasehold Improvements	$000 Total
Opening Cost	276	1,646	99	413	2,434
Additions	103	600	7	0	710
Disposals	(65)	0	0	(379)	(444)
Closing cost	314	2,246	106	34	2,700
Less accumulated depreciation					
Opening accumulated depreciation	(44)	(621)	(34)	(85)	(784)
Depreciation for the year	(32)	(540)	(20)	(61)	(653)
Accumulation depreciation written off on disposal	21	0	0	122	143
Closing accumulated depreciation	(55)	(1,161)	(54)	(24)	(1,294)
Closing balance at 30 June 2017	**259**	**1,085**	**52**	**10**	**1,406**

The net carrying amount of the ICT equipment held under a finance lease is $Nil (compared with $90,495 in 2017).

4. INTANGIBLE ASSETS

Year ended 30 June 2018	$000 Developed Software	$000 Software Licences	$000 Other Intangibles	$000 Total
Opening Balance	10,217	8,882	4,832	23,931
Additions	3,162	0	520	3,682
Disposals	(64)	0	(88)	(152)
Closing cost	13,315	8,882	5,264	27,461
Less accumulated amortisation				
Opening accumulated amortisation	(3,119)	(3,077)	(1,983)	(8,179)
Amortisation for the year	(1,502)	(848)	(949)	(3,299)
Accumulated amortisation written off on disposal	28	0	10	38
Closing accumulated amortisation	(4,593)	(3,925)	(2,922)	(11,440)
Closing balance at 30 June 2018	**8,722**	**4,957**	**2,342**	**16,021**

Year ended 30 June 2017	$000 Developed Software	$000 Software Licences	$000 Other Intangibles	$000 Total
Opening Balance	8,803	8,779	4,060	21,642
Additions	1,414	103	772	2,289
Disposals	0	0	0	0
Closing cost	10,217	8,882	4,832	23,931
Less accumulated amortisation				
Opening accumulated amortisation	(1,822)	(1,946)	(1,227)	(4,995)
Amortisation for the year	(1,297)	(1,131)	(756)	(3,184)
Accumulated amortisation written off on disposal	0	0	0	0
Closing accumulated amortisation	(3,119)	(3,077)	(1,983)	(8,179)
Closing balance at 30 June 2017	**7,098**	**5,805**	**2,849**	**15,752**

5. ACCRUALS AND PAYABLES

	$000 2018	$000 2017
Creditors	1,546	1,700
Accrued expenses	615	678
Total creditors and other payables	**2,161**	**2,378**

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. BORROWINGS FACILITY

EPL entered into an agreement with the New Zealand Debt Management Office (NZDMO), a department of The Treasury, in December 2017 to draw on a $13.2m Crown loan. The loan is required to maintain adequate working capital and support investment in intangible assets created during the Education Payroll Development Programme. The period of the loan is 6.5 years, the facility termination date being 30 June 2024. The drawdown on the loan will be in multiples of $2m or remaining balance of the loan and each drawdown will attract interest at the rate set by the NZDMO 2 days before the drawdown.

At balance date no drawdown had been made against the loan.

7. CORPORATE EXPENSES

	$000 2018	$000 2017
Corporate Expenses		
Bank Fees	1	1
Fringe Benefit Tax	(26)	34
Insurance	70	59
Mail/Courier	37	42
Other Corporate Costs	104	108
Payslip Printing and Postage	300	297
Sponsorship	-	3
Stationery, Printing & Photocopying	54	74
Catering Costs	12	12
Other: Cost Recovery Expenses	10	5
	562	**635**

8. AUDITOR’S REMUNERATION

EY provides audit services to EPL. Total amount recognised as an audit expense was $48,417 compared with $47,450 in 2017).

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 2018	$000 2017
Loans and receivables:		
Cash and cash equivalents	3,477	5,689
Receivables from exchange transactions	62	356
	3,539	**6,045**
Financial liabilities at amortised costs:		
Accruals and other payables	2,161	2,378
Finance Lease	0	112
	2,161	**2,490**

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

	$000 2018	$000 2017
Net income (deficit)	**856**	**(996)**
Add non-cash items		
Depreciation and amortisation expense	3,856	3,392
Loss in disposal	425	300
Other non-cash items	30	-
Net movements in non-cash items	**4,311**	**3,692**
Add/(deduct) movements in statement of financial position Items		
Trade Debtors	312	(356)
Accrued Income	(5)	(138)
Prepayments	(31)	98
Trade and Other Payables	(166)	391
Accruals & Provisions	(691)	49
Employment entitlements	65	12
Net movements in working capital items	**(516)**	**56**
Add: items classified as investing activities		
Interest paid on finance lease	1	12
Net Cash flow from Operating Activities	**4,652**	**2,764**

11. CAPITAL COMMITMENTS

EPL has contracted commitments for the development of property, plant and equipment or intangible assets as at 30 June 2018 of $221,600 (compared with $56,617 in 2017).

12. OPERATING LEASES AS LESSEE

Future minimum rent payable under operating leases as at 30 June 2018 is as follows:

As at 30 June	$000 2018	$000 2017
Not later than one year	844	1,194
Later than one year and not later than five years	3,020	3,640
Later than five years	-	700
Total non-cancellable operating leases	**3,864**	**5,534**

As a consequence of the November 2016 Kaikoura earthquake, EPL decided to discontinue its tenancy at its primary location in Wellington and relocate to new premises. EPL is scheduled to exit the remainder of this leased office space in September 2018. The leasing of this office space has been recognised as an onerous obligation to pay rent with a provision recorded to recognise this obligation.

EPL moved into its new leased premises in July 2017. The new head lease is for six-years and is reflected in the lease commitments above.

A further short term lease for an additional half floor at the new premises has been negotiated. This commences in July 2018 and is reflected in the above figures.

EPL has not exercised its right of renewal on the Christchurch premises. This lease will expire in September 2018.

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.

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 2018	$000 2017
Murray Jack (Chair)	56	55
Cathy Magiannis	28	27
Marcel van den Assum	28	27
Sandi Beatie	28	27
Total Board member remuneration	**140**	**136**

The Board of EPL is 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 2018	$000 2017
Wages and salaries	8,337	8,349
Other personnel costs	1,051	920
Personnel Expenses	**9,388**	**9,269**

The amounts above include the remuneration of key management personnel employed by the Company.

During the year to 30 June 2018, EPL paid $9,780 in compensation for redundancy related to an organisational redesign.

The table below shows total remuneration received by EPL employees which is equal to or exceeds $100,000 per annum during the year ended 30 June 2018.

$ Remuneration band	2018 Number of Employees	2017 Number of Employees
380,000 to 389,999		1
300,000 to 309,999	1	
290,000 to 299,999		1
240,000 to 249,999	1	1
200,000 to 209,999	1	
190,000 to 199,999	1	
180,000 to 189,999		1
160,000 to 169,999	2	2
150,000 to 159,999	2	1
140,000 to 149,999		1
130,000 to 139,999	1	1
120,000 to 129,999	2	1
110,000 to 119,999	1	2
100,000 to 109,999	2	3

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 2018	$000 2017
Senior management	1,300	1,269
Board	139	136
Number of persons recognised as key management personnel	8	8

15. EVENTS AFTER REPORTING DATE

On 22 August 2018 EPL drew down $2m against the Crown Loan. This will be repaid on 28 June 2024.

The interest rate will be 5.13% for the full period of the loan.

No other 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 and the availability of a credit facility.

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 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. Refer to note 6 for details of a Crown loan secured by EPL during the year.

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'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

	2018		2017	
Contributed Equity	Shares	$000	Shares	$000
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 $3m is an increase in the agreed annual fee paid by the Ministry of Education. This increase recognises the increased costs associated with the Education Payroll Development Programme (EPDP).

Operating expenditure was 7% higher than budgeted. The increased spend of $1.8m is primarily attributable to the following factors:

1. The increase of Third Party Support costs, $3.5m higher than budget, primarily reflects the operational spend on the EPDP that was not anticipated at the time the budget was approved.
2. This is offset by reduced personnel expenses, $0.6m, reflecting the capitalisation of internal labour costs to the EPDP.
3. Decreases in Accommodation, Travel and entertainment and Corporate expenses have offset this increase by $0.3m.
4. Reduced Depreciation and amortisation costs, $0.9m, reflects the lengthening of the life attributed to the payroll software and underlying perpetual licences. This is in line with the extended Master Service Agreements with the Ministry of Education and major software support company. Within these reduced costs is an increased level of asset disposal costs, acknowledging the withdrawal of EPL from the Christchurch offices and the impairment of ICT equipment and Novopay Online software, the later in line for replacement as part of the EPDP.

Statement of Financial Position

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

1. Lower current assets by $1.3m is mainly due to lower cash and cash equivalents of $1.4m as a result of higher external costs to mobilise the EPDP.
2. Higher non-current assets by $2.8m primarily reflecting the investment in the EPDP.
3. Higher current liabilities by $0.8m is mainly due to higher accruals and other payables as a result of the increased volume of external resources used on the EPDP.

Incorporated in 2014 under the Companies Act 1993, EPL is a Crown-owned company, listed on Schedule 4A of the Public Finance Act 1989 and subject to the Crown Entities Act 2004, the Official Information Act 1982, the Ombudsmen Act 1975 and the Public Finance Act 1989.

EDUCATION PAYROLL
Rārangi Utu ā-Mātauranga

2018