

# 2015

EDUCATION PAYROLL LIMITED

ANNUAL REPORT



  
**EDUCATION PAYROLL**  
LIMITED



# 2015

EDUCATION PAYROLL LIMITED

**ANNUAL REPORT**

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# CHAIR AND CHIEF EXECUTIVE'S FOREWORD

Education Payroll Limited began operation in October 2014. For us, every day is an opportunity to improve the performance of our payroll systems and our service to customers. We have already begun to see improvements in the delivery of payroll services to the 90,000 teachers and staff in 2,500 schools throughout New Zealand.

We are pleased to present our achievements and financial statements for the partial year to 30 June 2015, and to demonstrate the contribution we make to the New Zealand education sector.

Education Payroll Limited (EPL) was incorporated in August 2014 following a decision to transfer ownership and management of the schools' payroll service from Talent2 to a new Crown owned company.

Since our formation, our performance in delivering an accurate, reliable and timely payroll continues to improve. All pay periods in the past eight months have shown significant reduction in pay error rates and a corresponding decrease in payroll complaints.

The initial focus for EPL in its first months was the establishment of the company and ensuring a smooth transition from Talent2 to provide a reliable delivery of the fortnightly pay to teachers and support staff. This was closely followed by the need to ensure the successful delivery of the End of Year / Start of Year period, between October and March. This is the busiest period in the school calendar, when over 40,000 school employees require changes to their payroll records.

We measure our success by the reduction in complaints over this time. We are pleased to report that there were 63 per cent fewer complaints received for these pay periods in the 2015 year than in the previous year.

We have now commenced work on fulfilling our key priorities. This includes further improving the

accuracy of pay and entitlements provided to school staff through improvement projects that started this year and will continue through into the 2015/16 year.

We recognise that a strong organisational culture where people feel valued, connected, and engaged is essential for us to deliver on our objectives. We place a strong emphasis on ensuring our values and culture set the framework for the way EPL does things and how we treat our customers.

Our founding Chief Executive, Cathy Magiannis, left the Company at the end of the financial year to take up a senior management role at Massey University.

Cathy did a magnificent job in establishing the Company and negotiating the transfer of the business from Talent2 and we are delighted that she has agreed to become a non-executive director so that we retain the benefit of her institutional knowledge and experience.

## THE YEAR AHEAD

We are proud of the significant contribution EPL has already made to the education sector.

EPL is looking forward to the year ahead, a year that is full of challenge and opportunity as we continue to improve and streamline our services and processes. This will include leading a strategic review to create a strategy and plan to ensure the provision of a cost effective and sustainable operation for the delivery of the education payroll. ■■

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

Dame Patsy Reddy  
Chair  
17 September 2015



Stephen Crombie  
Chief Executive  
17 September 2015



# OUR BUSINESS

Our business is delivering customer focused school payroll services. Education Payroll Limited acts as the central payroll service for New Zealand schools. Every fortnight we make sure schools payroll is delivered and teachers and support staff are paid the right amount on time.

The schools payroll is the largest in New Zealand and one of the top 10 in Australasia. It pays around 90,000 teachers and support staff in around 2,500 schools per fortnight. It pays approximately \$170 million per pay period and \$4.4 billion per annum. This comprises almost five per cent of government expenditure.

We are responsible for all payroll processing, third party and customer service functions and all operational relationships, other than those retained by the Ministry of Education (the Ministry).

The fortnightly cycle forms part of a complex annual cycle of payroll events matched to the school calendar year.

We interact with over 6,000 registered payroll administrators around the country who provide the information that allows us to correctly process pay instructions.

One of our primary interfaces is with principals and their payroll administrators. This interface is largely managed through our Service Centre in Wellington.

Another key interface is with the Ministry who monitors our service performance in accordance with our Services Agreement with them.

Our services are delivered from our Wellington and Christchurch Service Centres.

The Wellington service centre contains a pay centre and service desk. Our corporate, information technology, and executive functions are also based in Wellington.

Our Christchurch service centre has a pay centre, as well as the salary assessment unit and debt management unit. ■■



# OUR SERVICES

We deliver an efficient, integrated and sustainable payroll service to schools.

Our services include:

- providing guidelines and communications to schools to assist them in fulfilling their payroll responsibilities,
- processing pay instructions received from school payroll administrators,
- answering questions from schools about Novopay,
- providing reports to schools on payroll activity,
- providing instructions for direct crediting of payroll,

- providing employees with a pay slip,
- maintaining individual and schools payroll record,
- providing instructions for payments to third parties involved in payroll, such as IRD and ACC,
- recovery of overpayments,
- conducting salary assessments, and
- processing of periodic payroll events.

In addition, in accordance with our Services Agreement, we provide the Ministry with a range of reports on schools payroll activity. The Ministry is the Government's lead advisor on education matters and these reports allow the Ministry to monitor our performance. ■■■



# OUR ACHIEVEMENTS AND PERFORMANCE

The first eight months focused on building the operational foundations for the new company while maintaining an accurate and timely fortnightly schools payroll. During this period EPL also managed a successful EoY / SoY, implemented improvements to the payroll system and prepared for the new financial year ahead.

## ESTABLISHMENT OF EPL

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. EPL commenced operations on 17 October 2014.

A transition team was established by the Ministry in July 2014 to manage the change in ownership of payroll services from Talent2 to EPL. This included establishing the company structure, the organisation structure, the IT structure and the corporate functions.

From 18 October 2014 EPL continued to build on the work of the transition team. This included the establishment of EPL values and embedding the new culture for the company and the on-going development of policies, processes and procedures to ensure compliance and good practice.

During the Novopay remediation the Ministry directly delivered several payroll functions to provide a complete service to teachers and staff. This included managing escalated Novopay enquiries, supporting data collation for third parties such as IRD, and operational processes such as manual pays.

Following the transfer of Novopay to EPL the Ministry and EPL agreed these functions would be transferred to EPL. In March 2015 our focus turned to enabling this transition and by 30 June the majority of functions were being undertaken by EPL.

The year has ended with the appointment of a new Chief Executive and the establishment of a permanent senior management team. These appointments bring together a mix of technical, IT and operational management skills and experience. It allows EPL to focus on its operational and strategic outcomes.

## FORTNIGHTLY PAY CYCLE

The fortnightly pay cycle touches all parts 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.

Delivering the pay each fortnight takes up a significant portion of the EPL resource base. Our Service Centre received on average 13,500 instructions per fortnight from school administrators which need to be processed on time and accurately. Our Service Desk also received on average 5,240 calls and 1,430 emails per fortnight from the sector.

In 2014/15, EPL have successfully managed the delivery of the pay accurately and on time each fortnight.

We measure our success in delivering an accurate, reliable and timely payroll through the following key performance indicators.

PERFORMANCE MEASURE	2014/15 STANDARD	2014/15 ACTUAL
All payments to eligible payees (permanent and temporary employees) will be accurately calculated.	99.5%	99.8%*
Percentage of payroll payments made on or before advised pay dates.	99.5%	100%*

\* as reported by the Ministry of Education

## END OF YEAR / START OF YEAR

End of Year/Start of Year refers to the period between October and March when over 40% of school employees require changes to their payroll records to accurately reflect their status and to ensure they are paid correctly.

EoY/SoY takes place at a time when schools are closed for an extended holiday period, holiday payments are being made, and a number of contract changes are implemented.

School Financial Reporting is also due to auditors by the end of March, increasing work at the school and Service Centres over this same period. During this October to March window, EoY/SoY procedures becomes the predominant focus of all those involved in delivering payroll (both at schools and within EPL) and there is little capacity to introduce other changes to payroll processes or systems.

A programme of work was undertaken between EPL and the Ministry of Education to manage this annual process and to build on improvements made in the previous year. These improvements were to ensure employees were paid accurately and that the experience for authorised users was improved and more user friendly.

The changes in 2014/15 focused on business processes, forms used by the authorised users, workflow improvements, IT changes to increase functionality, a training programme for the sector and management of EoY/SoY as an 'event'.

Work to improve the authorised users' experience focused on:

- improved user guides and forms – built with direct engagement from the sector,
- comprehensive sector EoY/SoY training – 1481 attendees attended the EoY/SoY overview webinar and 1143 self-paced learning modules were completed, and
- technology improvements to Novopay Online.

The collaboration and engagement with the sector provided for a successful EoY/SoY outcome notably:

- a decrease in the number of inaccurately paid employees (66% decrease in the number of manual pays processed in pay periods 19 to 25),
- a decrease in the number of complaints from the sector (decreased from 0.49% of all people paid in the pay period in 2013/14 to 0.13% in 2014/15 on an average), and
- a decrease in the cost of managing payroll activities throughout the December 2014 to March 2015 period.

Overall the managed event provided for a smoother and better user experience during a period of increased work, deadlines and holiday break.

99.59% of schools completed their EoY data entry by the deadline.

We can also measure our success with the EoY/SoY process by the following Start of Year error rates:

## START OF YEAR ERROR RATES

	2015	2014
Pay Period 22	0.09%	0.18%
Pay Period 23	0.18%	0.69%
Pay Period 24	0.15%	1.06%
Pay Period 25	0.08%	0.78%
Pay Period 26	0.07%	0.19%

## IMPROVEMENTS

Work to improve the systems and processes used to deliver the schools payroll is ongoing. Progress was made in 2014/15 to continue to remedy defects and improve the accuracy, timeliness and quality of the pay to teachers and support staff.

These improvements included the Debt Optimisation Project, the Controls Environment Review and the Leave Project.

### Debt Optimisation Project

The purpose of the project was to introduce improved tools to calculate and account for overpayment debt more effectively, support enhanced debt notification processes and implement case management to improve debt collection rates.

In 2014/15 we achieved improved accuracy of debt calculations and reduced the number of overpayments generated. The debt ledger at the end of June 2015 was the lowest ledger balance since September 2013.

Work continues in 2015/16 year to improve the processes and tools available to our staff.

### The Controls Environment Review

Delivering more accurate pay and entitlements requires the introduction of a new set of processes and controls to improve data quality, detect incorrect pay instructions (from schools and the Pay Centre), cleanse our payroll data more frequently and support our auditors during their end-of-year audit on our control environment and data quality.

EPL increased the resourcing level of our Payroll Audit team to strengthen the control environment. This meant an increase in data entry checking and the identification of processing errors to allow corrections within the current pay cycle. Enhanced forms, used by the sector, have also improved the accuracy of the information being submitted and then processed.

### Leave Project

It is important schools feel confident 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 has been established to address known leave problems in our system, some of which pre-dated Novopay. The project delivered improvements in leave entitlement calculations and balances through system changes implemented in June. The Leave Project will continue, through 2015, to confirm leave bookings and balances with schools to ensure an agreed position so schools can manage leave going forward.

## THE YEAR AHEAD

EPL also spent the later part of 2014/15 preparing for the year ahead. We worked with Ministry on the Services Agreement which defines the services we provide, our expected performance and the price paid for these services by the Ministry.

We built foundations for ongoing improvements with a number of internal reviews providing recommendations for implementation in the 2015/16 year. ☰

# OUR PEOPLE

We value our people. One of our key values is 'We back each other to win.' Education Payroll Limited 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 management of EPL are committed to ensuring that the Company is a Good Employer in practice, not only to comply with the statutory requirement, but also because it is in accordance with our Company values and increases the company's ability to attract, motivate and retain the skilled staff that it needs.

During its short existence EPL has established an open, trusted and collaborative culture. The Senior Management Team is actively developing and implementing a shared vision for the desired culture and the way we work, and has developed a core set of Values:

## EPL VALUES

**We are committed to our customers**

**Quality is everyone's responsibility**

**We back each other to win**

**We learn and improve continually**

**We trust and respect each other**

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

## OUR STAFF

EPL employs a total of 130.5 full time equivalents (FTE), compared to 91 FTE at the time of transition, an increase of 39.5 FTEs. The increase in FTE recognises the significant work that EPL has done to ensure it is better placed to manage the schools' payroll and that schools are supported in the right way to deliver on their payroll responsibilities. The increase also reflects the transfer of functions to EPL that had been held by the Ministry when Novopay had delivery issues. To ensure EPL has the ongoing capability and intellectual property within the organisation we have moved toward minimising the number of temporary staff engaged to undertake key roles.

Our FTEs comprise an Operations group of 101.5 FTEs and a Technology group of 19 FTEs. EPL is supported by a small Corporate team and an Executive team of 5 FTEs each.

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

### Recruitment, Selection and Induction

EPL uses a variety of different means to recruit staff including direct advertising, the use of recruitment companies who provide services under all of Government contracts and through the use of our employees' own networks. A variety of processes, including structured interviews, have been used to ensure a fair and unbiased recruitment and selection process.

### Capability Development

The focus on building capability this year included Team Leader Development where our Team Leaders commenced the Ministry of Social Development's Team Leader Programme. In addition, EPL has run in-house recruitment and selection and performance management workshops.

### Reward and Recognition

As part of the transition from Talent2 to EPL we committed to staff that we would undertake a full review of salaries. In February 2015 we commenced a Remuneration and Job Evaluation Review. Hay Group Limited was contracted to support us in undertaking the review. The review was completed by the end of June.

### Policy Development

As EPL is a new company a number of key employment policies needed to be drafted as they were not in place at the time of transition. To date our work programme has focused on good employer policies and wellness initiatives. These policies put in place a foundation on which to build.

### 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 is responsible for our service performance 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 and appointed in August 2014. The Board comprises three non-executive Directors appointed by Shareholding Ministers, following Cabinet approval. The directors are Dame Patsy Reddy (Chair), Murray Jack and Cathy Magiannis.

**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**

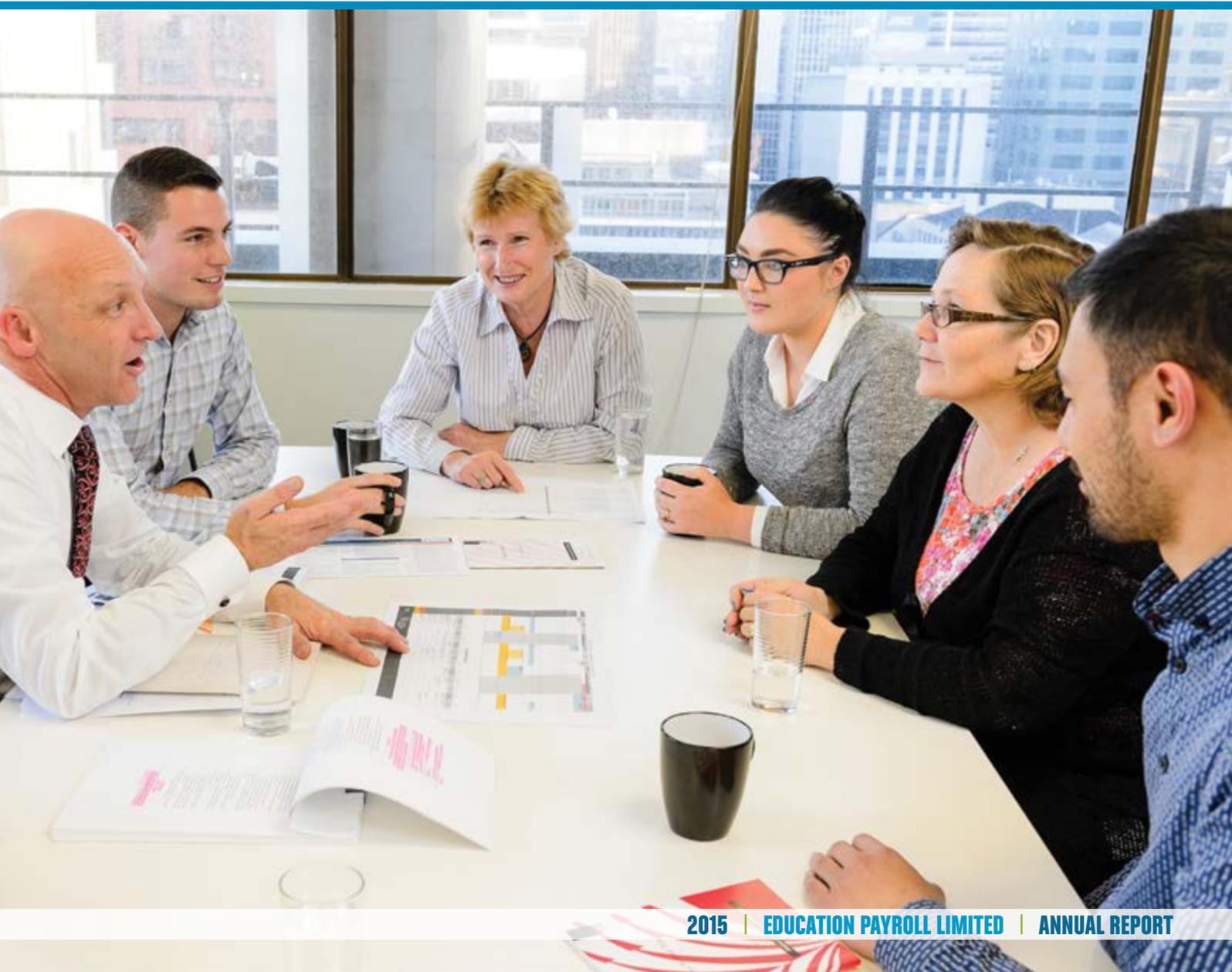
The Audit and Risk Committee chaired by Murray Jack assists the Board in fulfilling its responsibilities with respect to internal controls, accounting policies, financial statements approval, risk management, and the nature, scope, objectives and functions of external and internal audit. ■■■



# STATEMENT OF PERFORMANCE

For the 2014/15 financial year there was no Statement of Performance Expectations prepared. EPL's performance was guided by the 2014/15 Annual Letter of Expectations for Education Payroll Limited from the Minister Responsible for Novopay (on behalf of shareholding Ministers) to the chair of the Board, Dame Patsy Reddy.

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. ■■■



# STATEMENT OF RESPONSIBILITY

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The Board is responsible for the preparation of EPL's financial statements 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 fairly reflect the financial position and operations of EPL for the year ended 30 June 2015.



Dame Patsy Reddy  
Chair

17 September 2015



Chartered Accountants

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE READERS OF**

### **EDUCATION PAYROLL LIMITED'S FINANCIAL STATEMENTS**

### **FOR THE PERIOD ENDED 30 JUNE 2015**

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 of the the Company on her behalf.

#### **Opinion on the financial statements**

We have audited the financial statements of the the Company on pages 17 to 33, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expenses, statement of changes in equity, and statement of cash flows for the period ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion:

- the financial statements of the the Company:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the period then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with the standards for public sector public benefit entities.

Our audit was completed on 17 September 2015. 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. 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. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, 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 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 within the the Company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. 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 financial statements that:

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

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 that are free from material misstatement, whether due to fraud or error. The directors are also responsible for the publication of the financial statements, whether in printed or electronic form.

#### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of 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.

Other than the audit, we have no relationship with or interests in the the Company.



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

# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES FOR THE PERIOD ENDED 30 JUNE 2015

Period ended 30 June 2015	Notes	Actual \$000 (9 months)
<b>Revenue from exchange transactions</b>		
Sales of Services to Government	2	18,796
<b>Total Operating Revenue</b>		<b>18,796</b>
<b>Expenses</b>		
Personnel Expenses	16	5,177
Third Party Support		6,554
Corporate Expenses	8	499
Auditor's remuneration	9	38
Directors fees	15	50
Travel & Entertainment		32
Accommodation & Facilities		534
ICT Costs		3,480
Depreciation & Amortisation		2,414
<b>Total Operating Expenses</b>		<b>18,778</b>
<b>Finance income</b>		
Interest Received		58
<b>Finance expenses</b>		
Interest expense		21
<b>Net Finance Costs</b>		<b>37</b>
<b>Total surplus for the period</b>		<b>55</b>
<b>Total comprehensive income</b>		<b>55</b>

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

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

As at 30 June	Notes	2015 \$000
<b>Current Assets</b>		
Cash and cash equivalents		3,580
Receivables from exchange transactions	3	4,565
Prepayments		630
<b>Total Current Assets</b>		<b>8,775</b>
<b>Non-Current Assets</b>		
Property, Plant and Equipment	4	1,099
Intangible Assets	5	18,920
Work In Progress		246
<b>Total Non-Current Assets</b>		<b>20,265</b>
<b>Total Assets</b>		<b>29,040</b>
<b>Represented by</b>		
<b>Current Liabilities</b>		
Finance Lease Liability (Current Portion)	7	205
Accruals and payables	6	2,587
Employee entitlements		345
<b>Total Current Liabilities</b>		<b>3,137</b>
<b>Non-Current Liabilities</b>		
Finance Lease – Term Portion	7	328
<b>Total Non-Current Liabilities</b>		<b>328</b>
<b>Net Assets</b>		<b>25,575</b>
<b>Shareholders' Funds</b>		
Capital Contributions	19	25,520
Comprehensive Income for the year		55
<b>Total Shareholders' Funds</b>		<b>25,575</b>

The financial statements were approved by the Board and authorised for issue on 17 September 2015.

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

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## STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2015

	2015 \$000
<b>Balance as at 27 August 2014</b>	0
Movements :	
Capital Contributions	25,520
Total Comprehensive Income for the year	55
<b>Balance as at 30 June 2015</b>	<b>25,575</b>

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

## STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2015

Period ended 30 June	2015 \$000
<b>Cashflows from Operating Activities</b>	
Receipts from Sales of Services for Government	14,417
Receipts from Interest Received	58
	14,475
Payments to Suppliers	9,204
Payments to Employees	5,044
	14,248
<b>Net cash Inflows from Operating Activities</b>	<b>11      227</b>
<b>Cashflows from Investing Activities</b>	
Receipts	-
Payments:	
Purchase of Fixed Assets	2,495
	2,495
<b>Net Cash Outflows from Investing Activities</b>	<b>(2,495)</b>
<b>Cashflows from Financing Activities</b>	
Receipts:	
Proceeds from capital contributions	6,000
	6,000
Payments:	
Repayments of Borrowings	152
	152
<b>Net Cash Inflows from Financing Activities</b>	<b>5,848</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,580</b>
Cash and cash equivalents at beginning of period	-
<b>Cash and cash equivalents at the end of the period</b>	<b>3,580</b>
<b>Represented by:</b>	
Cash at Bank	3,580
	3,580

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. STATEMENT OF ACCOUNTING POLICIES

### Reporting Entity

Education Payroll Limited (EPL), is a limited liability company incorporated on 27 August 2014. EPL is formed following a decision to transfer ownership and management of the schools' payroll service from Talent2 to a new government-owned company. The new company commenced operations on 17 October 2014 and resides in New Zealand under the Companies Act 1993. It is a Crown entity as defined by the Crown Entities Act 2004 and listed in Schedule 4A of the Public Finance Act 1989. The Financial Statements disclosed from the period of incorporation to 30 June 2015. This is the company's first year of trading and thus no comparative figures are available for the financial statements.

EPL's purpose is to provide a payroll service to the Ministry of Education that ensures school payroll information and entitlements are accurately recorded, school staff paid correctly and on time, and payroll information is easily accessible to both the schools and the Ministry of Education. As such, EPL's principle aim is to provide services to the public, rather than make a financial return. 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 period.

### 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 was established subsequent to 1 July 2014. Throughout 2014/15 EPL operated in a changing environment and was also gaining an understanding of activities. As a result a budget was not formally adopted in 2014/15 and budget figures have not been presented in these financial statements for the year ending 30 June 2015. 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.

### 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

This is the first time EPL has reported its financial statements. EPL has adopted all new accounting standards.

## 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

Revenue from exchange transactions is presented in income relating to payroll services provided for the Ministry of Education. 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 ownership 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.

### Categories of Financial instruments

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.

### 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 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 6 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. All software related modules have been acquired during the accounting period.

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, and
- 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 3 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 to the Minister of Finance and Minister Responsible for Novopay. These have not been fully paid.

### Good 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. As EPL is in its early development as a separate entity all cost has been allocated to the output.

### 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, and
- valuation of intangibles and useful lives of intangibles.

### *Intangible Assets recognition & measurements*

Valuations are inherently subjective, and require the use of judgement. Determining the valuation of life of intellectual property and licence period for the use of software require the use of judgements. Judgement is applied in determining the allocation base for the purpose of valuation and capitalisation.

Intangible assets acquired 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 is 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 cost 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.

## 2. SALES OF SERVICES TO GOVERNMENT

### Rendering Services – full cost recovery

Income from sales of services to Ministry of Education represents the full costs of running the payroll service for the period reported. Under the Service Level Agreement, EPL are able to fully recover the cost of delivering the services.

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.

## 3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Receivables from exchange transactions include the following components:

	<b>2015</b>
	<b>\$000</b>
Receivables from exchange transactions	2,406
Accrued Income	2,159
<b>Total Receivables from exchange transactions</b>	<b>4,565</b>

## 4. PROPERTY, PLANT AND EQUIPMENT

<b>Year ended 30 June 2015</b>	<b>Furniture &amp; Fittings \$000</b>	<b>ICT Equipment \$000</b>	<b>Office Equipment \$000</b>	<b>Leasehold Improvements \$000</b>
Opening Balance	-	-	-	-
Capital contributions	206	943	42	217
Additions	-	13	15	-
Disposals	-	(47)	(1)	-
<b>Less Accumulated Depreciation</b>	<b>(17)</b>	<b>(230)</b>	<b>(13)</b>	<b>(29)</b>
<b>Closing balance at 30 June</b>	<b>189</b>	<b>679</b>	<b>43</b>	<b>188</b>

EPL has entered into a finance lease covering ICT equipment. The net carrying amount of the ICT equipment is \$497,317 and included in the table above.

## 5. INTANGIBLE ASSETS

Year ended 30 June 2015	Developed Software \$000	Purchased Software \$000	Software Licences \$000	Other Intangibles \$000
Opening Balance	-	-	-	-
Capital contributions	7,125	60	7,592	4,000
Additions	1,034	-	1,187	
Disposals	-	-	-	-
<b>Less Accumulated Depreciation</b>	<b>(712)</b>	<b>(33)</b>	<b>(833)</b>	<b>(500)</b>
<b>Closing balance at 30 June</b>	<b>7,447</b>	<b>27</b>	<b>7,946</b>	<b>3,500</b>

## 6. ACCRUALS AND PAYABLES

	2015 \$000
Creditors	1,951
Accrued expenses	636
<b>Total creditors and other payables</b>	<b>2,587</b>

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

## 7. 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 4. The lease expires in 2017.

<b>30 June 2015</b>	<b>Actual \$000</b>
<b>Minimum lease payments payable:</b>	
Within one year	228
Later than one year and not later than five years	342
Later than five years	0
Total minimum lease payments	570
Future finance charges	(37)
<b>Present value of minimum lease payments</b>	<b>533</b>
<b>Present value of minimum lease payments payable:</b>	
Within one year	205
Later than one year and not later than five years	328
Later than five years	0
<b>Total finance lease</b>	<b>533</b>
<b>Represented by:</b>	
Current	205
Non-current	328
<b>Total finance leases</b>	<b>533</b>

## 8. CORPORATE EXPENSES

	2015 \$000
<b>Corporate Expenses</b>	
Bank Fees	3
Fringe Benefit Tax	6
Insurance	30
Mail/Courier	12
Other Corporate Costs	9
Payslip Printing and Postage	294
Stationery, Printing & Photocopying	145
	<b>499</b>

## 9. AUDITOR'S REMUNERATION

EY provides audit services to EPL. Total amount recognised for as an audit expense with is \$38,000.

Fees to EY relate to the audit of the financial statements on behalf of the Auditor-General.

## 10. 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:

	2015 \$000
<b>Loans and receivables:</b>	
Cash and cash equivalents	3,580
Receivables from exchange transactions	4,565
	<b>8,145</b>
<b>Financial liabilities at amortised costs:</b>	
Accruals and other payables	2,587
Finance Lease	533
	<b>3,120</b>

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

	2015 \$000
Net surplus/(deficit)	55
<b>Add/(less) non-cash items Non Cash Items</b>	
Depreciation and amortisation expense	2,414
Net foreign exchange losses	
<b>Add/(less) movements in statement of financial position Items</b>	
Trade Debtors	(2,406)
Accrued Income	(2,159)
Prepayments	(630)
Trade and Other Payables	1,952
Accruals & Provisions	635
Employment entitlements	345
Net movements in working capital items	
<b>Add: Items Classified as Investing Activities</b>	
Interest paid on finance lease	21
<b>Net Cash flow from Operating Activities</b>	<b>227</b>

## 12. CAPITAL COMMITMENTS

There are no capital commitments as at the reporting 30 June 2015.

### 13. OPERATING LEASES AS LESSEE

Future minimum rental payable operating leases as at 30 June 2015 are as follows:

<b>30 June 2015</b>	<b>Actual \$000</b>
Not later than one year	499
Later than one year and not later than five years	1,995
Later than five years	821
<b>Total non-cancellable operating leases</b>	<b>3,315</b>

EPL leases car parks, office premises and office equipment.

EPL has two lease properties, which expire in 2021 and 2022 respectively with an option of renewal. A significant portion of the total non-cancellable operating lease expense relates to the lease of two office buildings.

### 14. CONTINGENT ASSETS AND LIABILITIES

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

## 15. BOARD OF DIRECTOR'S REMUNERATION

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

<b>(9 months)</b>	<b>2015 \$000</b>
Dame Patsy Reddy Chairperson	30
Murray Jack	20
Peter Hughes	-
Cathy Magiannis	-
<b>Total Board member remuneration</b>	<b>50</b>

The Board of EPL comprised of three directors, Dame Patsy, Murray Jack and Peter Hughes. Two of the directors were remunerated under Board Director Fees. Peter Hughes was not remunerated for the term of his appointment due to his position as the Secretary of Education. Peter Hughes resigned as Director effective 15 April 2015 and Cathy Magiannis was appointed Executive Director effective 16 April 2015.

EPL maintains an interest register to identify and manage conflicts of interest. Murray Jack's interest as Chair of Deloitte and in respect of Deloitte's ownership of Asparona has been disclosed in the register. During the year EPL purchased development services of \$1.457m from Asparona. The services were in relation to support ongoing work of the Alesco system. Murray Jack retired from his partnership with Deloitte at 31 May 2015.

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.

EPL has also been given a Crown Indemnity by the Minister of Finance, under the Public Finance Act 1989, section 65ZD (3) of the act, dated 5 November 2014.

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.

## 16. EMPLOYEE REMUNERATIONS

<b>(9 months)</b>	<b>2015 \$000</b>
Wages and salaries	4,083
Other personnel costs	1,094
<b>Personnel Expenses</b>	<b>5,177</b>

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 2015

<b>\$ Remuneration band</b>	<b>2015 Number of Employees</b>
320,000 to 329,999	1
200,000 to 209,999	1
190,000 to 199,999	1
180,000 to 189,999	1
120,000 to 129,999	1
110,000 to 119,999	1
100,000 to 109,999	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:

<b>Key management personnel remuneration 2015</b>	<b>\$000</b>
Senior management	658
Board	50
Number of persons recognised as key management personnel	7

## 17. EVENTS AFTER REPORTING DATE

Subsequent to the reporting date, EPL has entered into a new Service Level Agreement with the Ministry of Education. Under the new agreement EPL are required to operate within a Fixed Pricing Model.

## 18. 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 11. 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 7 and note 8 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.

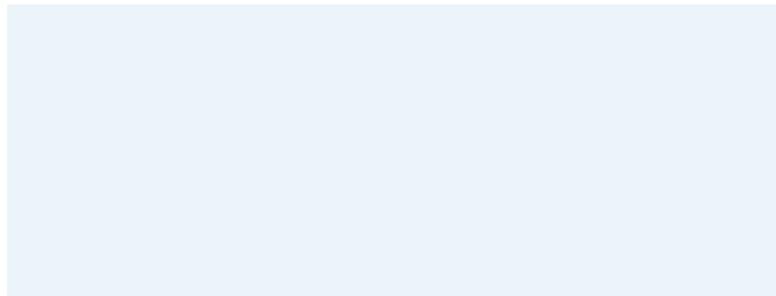
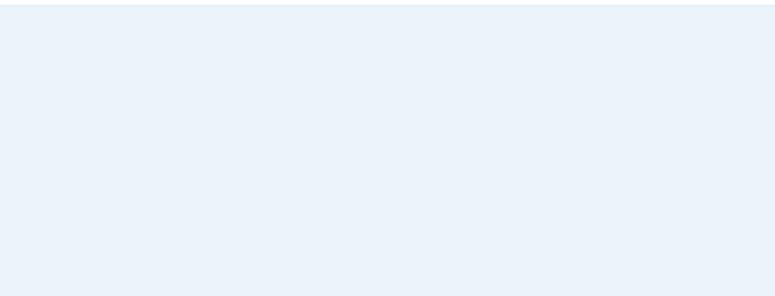
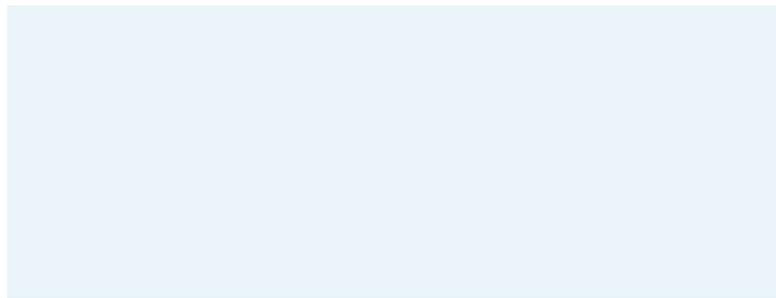
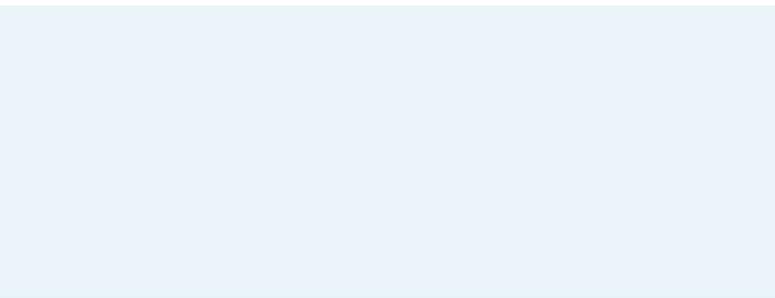
## 19. EQUITY & CAPITAL MANAGEMENT

Capital contributions comprise of assets from the settlement of Talent2 contract (\$19.52m) and cash injection (\$6m) from the Ministry of Education. These numbers were derived through the establishment of EPL. 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. ■■■



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