ACT ACCOUNTING POLICY

ACT Government

Chief Minister, Treasury and Economic Development

EMPLOYEE BENEFITS

For reporting periods Ending on or after 30 June 2019

ACT Accounting Policy - Employee Benefits

Contents

1. INTRODUCTION

1.1 PURPOSE

This ACT Accounting Policy: *Employee Benefits* provides general guidance to directorates and Territory Authorities on the accounting for employee benefits. This Policy is to be read in conjunction with the following:

- AASB 119 *Employee Benefits.*

1.2 RELATIONSHIP TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

ACT Accounting Policies are to be read in conjunction with the applicable Australian Accounting Standards. Australian Accounting Standards incorporate International Financial Reporting Standards issued by the International Accounting Standards Board, with the addition of paragraphs on the applicability of each standard in the Australian environment.

There is, however, no intention that the ACT Accounting Policies will replicate the Accounting Standards. Consequently, directorates should ensure that they have a thorough understanding of the content of the standards before reading and applying relevant ACT Accounting Policies.

1.3 APPLICATION DATE

This ACT Accounting Policy applies to reporting periods ending on or after 30 June 2019.

1.4 CONTACT

If you have any questions regarding the content or application of this ACT Accounting Policy, please contact the ACT Financial Framework Management & Insurance Branch (Geoff Britt ph. (02) 62070259, email geoff.britt@act.gov.au or Lyn Grigg ph. (02) 62070245, email lyn.grigg@act.gov.au.

2. SHORT-TERM EMPLOYEE BENEFITS

2.1 EXAMPLES OF SHORT-TERM EMPLOYEE BENEFITS

AASB 119.8 Definitions provides that short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service. Examples of these benefits in AASB119.9 include:

- wages and salaries;
- annual leave loading; and
- non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

In ACT public sector agencies, it is unlikely that the total annual leave benefit for all employees would be settled wholly before 12 months after the end of the annual reporting period.

To determine the difference between short-term and long-term employee benefits see Section 4: *Current/Non-Current vs. Short-Term/Long-Term*.

2.2 MEASUREMENT OF SHORT-TERM EMPLOYEE BENEFITS

AASB 119.11 states that when an employee has rendered service to an entity during a reporting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service. As such:

- the undiscounted amount (or nominal amount) is calculated based on the remuneration rates that the entity expects to pay when the liability is settled, rather than remuneration rates as at the reporting date.

Therefore, balances taken out of an agency's HR system at the end of the reporting period will need to be adjusted for any known Enterprise Agreement (EA) increases. Where an EA is being renegotiated and the outcome is not known, then best estimates of pay outcomes need to be made.

As noted above, in ACT public sector agencies, it is unlikely that the total annual leave benefit for all employees would be settled wholly before 12 months after the end of the annual reporting period. Consequently, annual leave is likely to be a long-term employee benefit which AASB 119 requires to be measured at present value.

2.3 SICK LEAVE (PERSONAL LEAVE)

ACT Government agencies must not take up a liability for sick leave where employees are accruing non-vesting sick leave and the average sick leave estimate to be taken each year is less than the annual entitlement. In most, if not all cases, agencies are going to have employees accruing non-vesting sick leave.

An agency must assess whether on average its employees are going to take more sick leave than they will accrue in the next 12 months. For example, where employees in an agency accrue three weeks of sick leave (personal leave) a year and the agency expects that on average its employees are going to take four weeks off in sick leave over the next 12 months then the agency will have to take up a liability for sick leave. Note that this would only occur in rare circumstances.

3. LONG-TERM EMPLOYEE BENEFITS

3.1 DEFINITION

AASB 119.153 provides that other long-term employee benefits include benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Examples of these benefits include:

- long-term compensated absences such as long service or sabbatical leave;
- jubilee or other long service benefits;
- long-term disability benefits; and
- deferred remuneration.

As noted previously, long-term employee benefits are likely to include annual leave, as annual leave for all employees is not normally expected to be settled wholly within 12 months.

Present value measurement is required for long-term employee benefit liabilities that are not expected to be settled wholly before 12 months after the end of the period in which the employees render the related service (AASB119.60, 66 and 156).

3.2 METHODS FOR CALCULATING LONG SERVICE LEAVE (LSL) AND ANNUAL LEAVE (AL) LIABILITIES

There are four ACT Government accounting methods which have been developed to assist agencies with the calculation of their LSL and AL liabilities. Note, only the on-cost and present value methods apply to annual leave. These methods are as follows:

- LSL Probability Method - This method is used to adjust the LSL liability for the probability of staff reaching their unconditional LSL entitlement, which is 7 years of service.
- On-Cost Method - This method is used to assist agencies in estimating the percentage of employees that take leave in-service, and therefore how much superannuation on-costs, LSL on-costs, AL on-costs, and any other material on-costs to include in the liability.
- LSL Present Value Method - This method is used to estimate the present value of the liability instead of undertaking the full present value calculation.
- AL Present Value Method – This method is used to estimate the present value of the Annual Leave Liabilities.

The methods are further outlined below.

3.2.1 ACT LSL Probability Factor Method

Although not specifically required by AASB 119, probability factors should be used when calculating the LSL liability for officers with less than the qualifying length of service for entitlement to LSL (i.e. 5 years pro-rata (s11C *Long Service Leave Act 1976*) with a full entitlement after 7 years (s3 *Long Service Leave Act 1976*)). This approach is a calculation method for the recognition of probable LSL liabilities to eventuate for employees with less than
7 years of service.

Agencies are to apply the probability percentages in the following table to each employee's LSL balance in accordance with their completed years of service (based on the Australian Government Actuary (AGA) Shorthand Valuation Method for Long Service Leave Liabilities ACT Government Employees Report dated 5 April 2019).

Completed Years of Service	Recommended ACT LSL Probability Factors
0	0.52
1	0.60
2	0.67
3	0.74
4	0.80
5	0.87
6	0.94
7+	1.00

See **Attachment A** for an example of how to apply the LSL probability factor (LSLPF) method in the calculation of the long-term LSL liability.

The actuarial advice has confirmed:

- **One Size Fits All approach**
  Using Agency specific probability factors for large agencies do not yield results materially different from the factors in the above table (typically difference is less than 2%). Therefore, a one size fits all approach as a standardised approach remains appropriate.

3.2.1 ACT LSL Probability Factor Method continued

The actuarial advice has confirmed:

- **Age 55**
  No specific allowance is required for employees over the age 55. The discount factors used recognise the amounts and expected timing of LSL cashflows for employees over the age of 55, therefore it is not considered necessary to make any specific allowance for staff over the age of 55.

3.2.2 ACT On-Cost Method

ACT Government agencies are required to take up superannuation, LSL and annual leave on-costs as a liability and as an expense that relate to annual leave and LSL 'taken in-service'. The on-cost percentages to be applied are as follows:

On Costs	2018-19
Superannuation On-Cost	
- Employees in CSS[1&2]	16.20%
- Employees in PSS[1&2]	25.50%
- Employees in PSSAP	15.40%
- Employees in Fund of Choice[3]	10.80%
LSL On-Cost[4]	2.464%
Annual Leave On-Cost[5]	7.668%

References: Conditions of service for ACT government employees; Report on the Notional Agency Contribution Assessments 2018/2021

1. Amounts include the productivity component.
2. The percentages provided may vary each financial year, so agencies must ensure they use the latest percentages provided – usually provided to agencies each financial year. The calculations performed in this policy still apply, however the percentages used may need to change.
3. This percentage will change over the coming years with Commonwealth legislation to increase the superannuation percentage (does not include the extra 1% for employee's salary sacrificing).
4. This rate only applies to employees that accrue 9 days of LSL per year. Therefore, if an employee accrues a different number of days the rate will be different.
5. This rate only applies to employees that accrue 20 days of Annual Leave per year. Therefore, if an employee accrues a different number of days the rate will be different. Where this is the case an agency can apply a daily rate of 0.003834 (e.g. for an employee that accrues 25 days the calculation would be 25 x 0.003834 = 9.585%).

- **Superannuation On-Costs**
  Superannuation on-costs are the amounts that agencies pay to the Territory Banking Account, ComSuper and to employees' superannuation funds of choice to cover an agency's superannuation liability.

- **LSL and AL On-Costs**
  - LSL and AL on-costs must be recognised as an employee benefit liability because it will be a cost that the agency incurs when the employee takes leave in the future while in-service. This is because employees accrue both LSL and AL when they are on LSL. They also accrue both LSL and AL when they are on AL.
  - ACT Government agencies are required to take up any other material on-costs as a liability and an expense that relate to AL and LSL 'taken in-service' (for instance, annual leave loading). Each agency will need to assess whether the inclusion of relevant on-costs in the calculation of the provision for employee benefits would be material.

3.2.2 ACT On-Cost Method continued

- **Taken In-Service LSL & AL %**
  ACT Government agencies should use the following percentages for LSL & AL taken in Service:
  - 35% for Long Service Leave (LSL); and
  - 90% for Annual Leave (AL).

  (Reference: AGA Report 5 April 2019 page 27)
  These percentages represent the probability that an employee will take AL or LSL while in-service. In assessing the amount of on-costs to include as a liability, it is only the on-costs that relate to AL and LSL taken while the employee is working for the ACT Government.

- **Resignation & Retirement On-costs**
  On-costs should not be recognised for AL or LSL that are paid out on resignation or retirement. Resignation in this respect means resignation from the ACT Government rather than leaving one ACT Government agency and moving to another ACT Government agency.

See **Attachment A** – **Calculation of LSL Liability and Expenses** for an example of how to apply the on-cost short-hand method in the calculation of the LSL liability and **Attachment B** – **Calculation AL Liability and Expenses** for an example of how to apply the on-cost short-hand method in the calculation of the AL liability.

3.2.3 ACT LSL Present Value Method

To simplify the present value calculation, agencies can apply a 'present value factor' to their LSL liability amounts, in order to calculate the present value.

The 'LSL present value factor' will be provided to agencies six monthly that is at the end of December and June. In almost all cases this factor will change each time. This means that the total of the LSL provision amount from an agency's HR system needs to be adjusted by the 'present value factor' (amongst other things) before inclusion in an agency's financial report.

The 'present value factor' has been actuarially determined by projecting the employee benefit liability forward using the likely future wage increases and then discounting it back to present value, based on the Commonwealth Government bond rate (not-for-profit agencies) and corporate bond rate (for-profit agencies) applicable to the estimated period to which the employee benefit is likely to be settled.

See **Attachment A – Calculation of Long Service Leave Liability and Expenses** for an example of how to apply the present value short-hand method in the calculation of long-term LSL liability.

3.2.4 ACT Annual Leave Present Value Method

There are three elements to the AL present value method which are described below, followed by an example.

1. Annual Leave Taken

Based on the analysis of ACT Government employee records by the AGA it is reasonable to assume (for financial reporting purposes) that:

- 70 % of accrued AL will be 'used up' (either as leave or cashed out) within 12 months; and
- 30% will be used up within the following 24 months.

(Reference: AGA Report 5 April 2019 page 15)

3.2.4 ACT Annual Leave Present Value Method - continued

2. Mean Term of AL Liability - approximately 1year

As a result, the mean (average) term of the AL liability for approximately 1 year is as follows:

Calculation to use	Example AL Taken	Mean Term (Years)
70% (within 12 months)	70% x .5yr (6 months) =	.325
30% used up after 12 months	15% x 1.5yrs =	.225
	15% x 2.5yrs =	.375
Approximately 1 Year		0.95

3. AL Present Value Factor (PVF)

The annual leave present value factor (or discount factor) is calculated as follows:

$$\text{Present Value Factor} = \frac{(1 + \text{Salary Growth Rate*})\ \hat{}\ (\text{Salary increase increment} - \text{Delay**})}{(1 + \text{One Year Bond Yield})}$$

*Salary Growth Rate - is the average annual salary increase expected over the next two to three years.

**Delay - is the average delay, in years, before the first year's general salary increase(s).

Example

For example suppose the expected average salary growth over the next three years is 3 percent pa with the scheduled salary increases to be in increments of 1.5 percent:

- First scheduled increase, immediately after the balance date;
- Second scheduled increase, nine months after the balance date; and
- Thereafter scheduled increases each six months.

As a result, the:

Salary Growth Rate = 3 percent or .03

Delay = 0.375 (average of 0 and nine months, expressed in years i.e. (0+0.75)/2 = 0.375.

Calculation of PVF

This gives a present value factor of:

$$\text{PVF} = \frac{(1+.03)\ \hat{}\ (1.5 - 0.375)}{(1+.015)} \text{ (assuming a one-year bond rate of 1.5\%)}$$

$$\text{PVF} = \frac{(1.03)\ \hat{}\ (1.125)}{1.015}$$

$$\text{PVF} = \frac{1.034}{1.015}$$

PVF = 1.019 or 101.9 %

The annual leave present value factor will be provided to agencies six monthly, that is at the end of December and June. Agencies may have to vary this factor depending upon the size and timing of their particular wage increases. Present value factors will be provided for both Not-For-Profit and For-Profit agencies.

See **Attachment B – Calculation of Annual Leave Liability and Expenses** for an example of how to apply the present value short-hand method in the calculation of long-term annual leave liability.

3.3 SHARED SERVICES AGENCIES

Shared Services (SS) manages the payroll and financial reporting functions for a number of agencies. Where agencies use the SS human resources (HR) area, SS HR will apply the probability and on-cost methods to the agency's unadjusted LSL liability.

SS HR will also apply the on-cost method to the agency's unadjusted annual leave liability. Where agencies also use the SS finance area, SS finance will apply the present value method to agencies' LSL and annual leave liabilities. As such, where an agency has their payroll and finance function through SS they will not have to apply the three calculation methods to their employee benefits data.

3.4 UNWINDING OF EMPLOYEE PROVISIONS

AASB 119.8 defines net interest on the net defined benefit liability (asset) as 'the change during the period in the net defined benefit liability (asset) that arises from the passage of time.' That is, the unwinding of a provision due to the passage of time is recorded as an interest cost.

Further, AASB 119.156 (b) requires net interest on the net defined liability (asset) relating to long-term employee benefits, to be separately recognised in the financial statements. Therefore the movement in a long-term employee benefit such as LSL will need to be split between the portion that relates to the:

- increase in the provision (recorded as an employee expense); and
- unwinding of the provision (recorded as an interest cost).

ACT Government agencies are not required to separately disclose the movement of a long-term employee benefit into an employee expense and interest cost. The whole movement should be recorded as an employee expense**.** This is due to the fact that, in most cases, the amount of interest costs are likely to be immaterial.

4. CURRENT / NON-CURRENT VS. SHORT-TERM / LONG-TERM

AASB 101.60-76 *(*AASB 101 *Presentation of Financial Statements*) outlines the criteria for disclosing a liability as current. One of the criteria provides that a liability is to be disclosed as current where an agency does not have an unconditional right to defer settlement of that liability for at least 12 months after the reporting date. As such, where an agency has a conditional right to defer settlement, the liability is classified as current and where an agency has an unconditional right to defer settlement, the liability is classified as non-current.

AASB 119.8 defines 'short-term' and 'long-term' differently to the definition of 'current' and 'non-current' in AASB 101.60-76, and as such the terms are not the same. The distinction between short-term and long-term is determined by when the leave of all employees is expected to be 'settled wholly'.

Agencies must first measure employee benefits according to whether they are classified as short-term (nominal value) or long-term (present value). Once the total employee benefit has been calculated it is then classified as either current or non-current.

4.1 CLASSIFICATION OF ANNUAL LEAVE AS CURRENT / NON-CURRENT

As ACT Government agencies do not have an unconditional right to defer settlement of annual leave liabilities, all annual leave must be classified as current.

4.2 CLASSIFICATION OF LONG SERVICE LEAVE AS CURRENT / NON-CURRENT

- All unconditional LSL must be classified as - Current.
  Unconditional LSL occurs where the employee has 6 completed years of service or more.

- All conditional LSL must be classified as - Non-Current.
  Conditional LSL is leave of employees that have less than 6 completed years of service.

5. TRANSFER OF EMPLOYEE BENEFIT LIABILITIES BETWEEN AGENCIES

Given the portability of staff in the ACT public sector and the restructuring that can occur within directorates, staff often transfer between ACT Government agencies. Where an employee transfers from one Government agency to another, liabilities accrued in respect of employee benefits for that employee up until the date of transfer will, in the vast majority of instances, be transferred with the employee.

Employee benefit liability transfers between a Directorate/Prescribed Territory Authority to/from a Non-Prescribed Territory Authority are discussed in **Attachment C – Transfer of Employee Benefit Liabilities to/from ACT Entities**.

Employee benefit transfers can occur between ACT Government agencies:

- in the ordinary course of business; or
- not in the ordinary course of business. Transfers not occurring in the ordinary course of business result from:
  - changes to administrative arrangement (AAs);
  - a formal government decision (e.g. a Cabinet decision, or an agreement signed by the respective Ministers) to transfer employees between directorates; and
  - a formal government decision to transfer employees between a directorate and Territory authority.

5.1 ACCOUNTING TREATMENT OF TRANSFERS

5.1.1 TREATMENT 1 – IN THE ORDINARY COURSE OF BUSINESS

Employee benefit liabilities transferred between agencies in the ordinary course of business must be accounted for by the transferee (transferor) as an increase (decrease) in employee liabilities and an increase (decrease) in expense. This is because this transaction is not classified as a contribution by owner / distributions to owner.

5.1.2 Treatment 2 – Not in the ordinary course of business

Asset transfers resulting from AA changes and transfers of employees between directorates, or between a directorate and a Territory authority, resulting from ACT Government decisions should be accounted for by the transferee (transferor) as an increase (decrease) in employee liabilities and a decrease (increase) in equity. This is because this transaction is classified as a contribution by owner/distribution to owner.

5.2 BASIS OF MEASUREMENT OF TRANSFERRED EMPLOYEE BENEFIT LIABILITIES

Both the transferor and the transferee must take up the same value for the employee benefit liabilities being transferred. Employee benefit liabilities are to be transferred, in all circumstances, at the book value of the transferor.

6 PAID PARENTAL LEAVE

The Paid Parental Leave (PPL) scheme came into effect on 1 January 2011. The scheme is funded by the Commonwealth Government and provides Parental Leave Pay to mothers and other primary carers who have been in the paid workforce and who have a baby or adopt a child on or after 1 January 2011.

Payments will be taxable and subject to income and residency tests. Payments are not salary for workers compensation purposes and this leave is not counted as paid leave.

Employers (ACT Government agencies) are not obliged to make payments unless they have received funding from the Commonwealth Government prior to payroll cut off.

6.1 ADMINISTRATION PROCESS

Shared Services administers the PPL for agencies that utilise the ACT Government's human resource management system, Chris21.

The steps for employees receiving PPL payments is set out below:

1. Eligible ACT Government employees apply for PPL with Centrelink.
2. Centrelink advises Shared Services (registered ACT Government employer) if the application is successful.
3. Once a fortnight, a week in advance of pay cut-off, PPL funds will be sent to Shared Services Salaries Account. Centrelink will provide a report detailing to whom the funds relate.
4. Funds relating to employees will be transferred to the relevant employee's agency bank account.
5. Shared Services (payroll) will then pay the funds via Chris21 to the employee.

For agencies that do not utilise Chris21, the administration process is similar to the above. Steps 1 to 2 are the same. Funds relating to the employee(s) will be transferred from Centrelink to the agency's bank account. The agency will then transfer the relevant PPL funds to the employee's bank account.

Information on the Paid Parental Leave scheme is available from the Commonwealth Government Family Assist Website - http://www.familyassist.gov.au/

6.2 ACCOUNTING TREATMENT

Amounts received in relation to the PPL scheme are held by the agency in an agent capacity. As such, receipts of such funds are not considered revenue for the agency, nor are payments of these amounts considered to be expenses of the agency.

Where employers have received amounts at balance date that have not yet been paid to employees, they must be accounted for as cash and a liability (i.e. payable).

Cash flows relating to the scheme are to be recognised as part of ‘Cash flows from operating activities – Other’ on the Statement of Cash Flows.

ATTACHMENT A - CALCULATION OF LONG SERVICE LEAVE LIABILITY AND EXPENSE

The calculation is based on a two-part process:
1. Recognition and measurement of the Long Service Leave (LSL) liability; and
2. Disclosure of the LSL liability.

The example below is based on the following data:
Amounts at 30 June 20X1 (from 20X0-X1 Financial Statements)

- Current LSL liability $8,000
- Non-Current LSL liability $62,000

This example only includes superannuation, LSL and annual leave on-costs.

A1. RECOGNITION AND MEASUREMENT

The three steps below recognise and measure the present value LSL liability and expense at 30 June 20X2.

Step 1 – Apply Probability Factors and On-Costs to the Unadjusted LSL Liability of each Employee
Obtain the LSL liability for each employee, based on remuneration rates applicable at 30 June 20X2 (e.g. from an agency's HR records). Once this information is obtained, the LSL probability factors (see section 3.2.1), and on-costs must be applied. The table 1 LSL Calculations below outlines the application.

Table 1 Long Service Leave Calculations 20X2

Probability Factors and On-Costs to the Unadjusted LSL Liability of each Employee											
A	B	C	D	E	F	G	H	I	J	K	L
Employee	Un adjusted LSL Liability	Years of Complete Service	LSL Prob. Factor LSLPV	Prob. Weight Accrued LSL	Super Fund	Super On-Cost Rate	LSL On-Cost Rate	AL On-Cost Rate	Total In-Service On-Cost Rate	LSL On-Cost Amount	Total Nominal LSL Liability
A1	$4,043	2	0.67	$2,709	FoC	0.108	0.0246	0.0767	0.0733	$198	$2,907
B1	$8,000	10	1	$8,000	PSS	0.255	0.0246	0.0767	0.1247	$998	$8,998
C1	$25,000	12	1	$25,000	CSS	0.162	0.0246	0.0767	0.0922	$2,304	$27,304
D1	$6,800	3	0.74	$5,032	PSSAP	0.154	0.0246	0.0767	0.0894	$450	$5,482
E1	$2,000	9	1	$2,000	PSS	0.255	0.0246	0.0767	0.1247	$249	$2,249
F1	$1,200	0	0.52	$624	FoC	0.108	0.0246	0.0767	0.0733	$46	$670
G1	$5,000	2	0.67	$3,350	FoC	0.108	0.0246	0.0767	0.0733	$245	$3,595
H1	$30,000	15	1	$30,000	CSS	0.162	0.0246	0.0767	0.0922	$2,765	$32,765
Totals	**$82,043**			**$76,715**						**$7,255**	**$83,970**

Calculations in the Table 1 (above)

1. Unadjusted LSL Liability (Column B) x LSL Probability Factor (Column D) = Probability Weighted Accrued LSL (Column E). Formula: B x D = E
2. Super On-Cost Rate (Column G) + LSL On-Cost Rate (Column H) + AL On-Cost Rate (Column I) x Accrued LSL taken in Service % (ALSLTiS%) = Total In-Service On-Cost Rate (Column J). Formula: (G + H + I) x (ALSLTiS%) (35% AGA report 4 April 2019 para 6.3 pg 27) = J
3. Probability Weighted Accrued LSL (Column E) x Total In-Service On-Cost Rate (Column J) = LSL On-Cost Amount (Column K). Formula: E x J = K
4. Probability Weighted Accrued LSL (Column E) + LSL On-Cost Amount (Column K) = Total Nominal LSL Liability (Column L). Formula: E + K = L

Attachment A – 1. Recognition and Measurement continued

Step 2 – Calculate the Long Service Leave Present Value
The total nominal balance is $83,970 (table 1 column L). We than apply the LSL present value factor which in this example is 0.94 (94% represents the present value using the ACT present value method).
Total Nominal LSL Liability (table 1 column L) x LSL Present Value Factor = Adjusted Total LSL Liability

Calculation: $83,970 x 0.94 = $78,932.

Note: Financial Framework and Insurance (FFMI) will advise the actual long service leave present value factor in early January and July each year.

Step 3 – Calculate the LSL Expense for 20X1-X2
Determine the difference between the 20X1-X2 and the 20X0-X1 LSL liabilities as follows:

'Adjusted total LSL liability' at 30 June 20X2 (step 2)	$78,932
Less *total LSL liability at 30 June 20X1 (Current LSL liability from 20X0-X1 $8,000 + Non-Current LSL liability from 20X0-X1 $62,000 = $70,000)	$70,000
Total expenditure for 20X1-X2	$8,932

A2 DISCLOSURE

Step 4 – Non-Current Classification for LSL Liability
Formula to calculate the Non-Current LSL liability is:
('unadjusted LSL liability' from HR records for employees with less than 6 completed years of service (table 1 column B - A1,D1,F1,G1) divided by (/) the 'total unadjusted LSL liability' (table 1 column B total)) and multiplied (X) by the 'adjusted total LSL liability' (step 2).

Calculation: ($17,043 / $82,043)* $78,932 = $16,397 Non-Current LSL Liability

Step 5 – Current Classification for LSL Liability
Formula to calculate the Current LSL Liability is:
('unadjusted LSL liability' from HR records for employees with 6 completed years of service or more (table 1 column B - B1,C1,E1,H1) divided by the 'total unadjusted LSL liability'(table 1 column B total)) and multiply by the 'adjusted total LSL liability' (step 2).

Calculation: ($65,000 / $82,043) * $78,932 = $62,535 Current LSL Liability.

(This amount can also be calculated by taking the Non-Current LSL Liability (step 4) away from the adjusted total LSL Liability (step2). calculated as $78,932- $16,397 = $62,535.)

ATTACHMENT B - CALCULATION OF ANNUAL LEAVE LIABILITY AND EXPENSE

Example – Annual Leave (AL)
Annual leave liability as at 30 June 20X1 $40,000 (from 20X0-X1 Financial Statements).

B1 RECOGNITION AND MEASUREMENT

Step 1 – Apply On-Costs to the Unadjusted Annual Leave Liability of Each Employee
Obtain the annual leave liability for each employee, based on remuneration rates applicable at 30 June 20X2 (e.g. from an agency's HR records). Once this information is obtained on-costs must be applied. In this example, the below table outlines the application of on-costs to the unadjusted annual leave liability of each employee:

Table 2 Annual Leave Calculations 20X2

On-Costs to the Unadjusted Annual Leave Liability of Each Employee							
A	B	C	D	E	F	G	H
Employees	Unadjusted AL liability	Super On-cost Rate	LSL On-cost Rate	AL On-cost Rate	% of Total On-Cost	AL On-Cost Amount	Total Nominal AL Liability including On-Costs
A1	$5,300	0.108	0.0246	0.0767	0.1884	$998	$6,298
B1	$2,000	0.255	0.0246	0.0767	0.3207	$641	$2,641
C1	$8,000	0.162	0.0246	0.0767	0.2370	$1,896	$9,896
D1	$10,250	0.154	0.0246	0.0767	0.2298	$2,355	$12,605
E1	$1,100	0.255	0.0246	0.0767	0.3207	$353	$1,453
F1	$4,750	0.108	0.0246	0.0767	0.1884	$895	$5,645
G1	$1,375	0.108	0.0246	0.0767	0.1884	$259	$1,634
H1	$9,300	0.162	0.0246	0.0767	0.2370	$2,204	$11,504
Totals	**$42,075**					**$9,602**	**$51,677**

Calculations in the Table 2 (above)

1. Super On-cost Rate (Column C) + LSL On-Cost Rate (Column D) + AL On-Cost Rate (Column E) x % AL Expected to be taken in-service = 90% (AGA report 5 April 2019 para 4.35-36 pg 16) = % of Total On-Cost (Column F). Formula: (C + D + E) x 90% = F
2. Unadjusted AL Liability (Column B) x % of Total On-Cost (Column F) = AL On-Cost Amount (Column G). Formula: B x F = G
3. Unadjusted AL Liability (Column B) + AL On-Cost Amount (Column G) = Total nominal Annual Leave Liability including On-Costs (Column H). Formula: B + G = H

Step 2 – Apply Present Value Factor to get Adjusted Annual Leave liability including on-costs
Formula to calculate the Adjusted Annual Leave Liability is:
Annual leave liability including On-costs (column H) x Annual Leave Present Value Factor 101.9% (AGA report 4 April 2019, para 4.33 page 16) = Adjusted Annual Leave Liability.

Calculation: $51,677 x 101.9% = $52,659 Adjusted Annual Leave Liability

Note: Financial Framework and Insurance (FFMI) will advise the actual annual leave present value factor in early January and July each year for Not-For-Profit and For-Profit agencies.

B2. Recognition and measurement - continued

Step 3 – Calculate Annual Leave Expense for 20X1-X2

Determine the difference between the 20X1-X2 and the 20X0-X1 annual leave liabilities (example $40,000 20X0-20X1 Financial Statements). This then becomes the amount of annual leave expense for the 20X1-X2 financial year.

Calculation annual leave liability is:

AL 20X1-X2 = $51,677
Less AL 20X0-X1= $40,000
AL Expense = $11,677

Example journal:

Debit - Annual Leave Expense	$11,677	
Credit - Annual Leave Liability		$11,677

B2. DISCLOSURE

Step 4 – Current / Non-Current Split for Annual Leave Liability

All annual leave is disclosed as current.

ATTACHMENT C – TRANSFER OF EMPLOYEE BENEFIT LIABILITIES TO/FROM ACT ENTITIES

To/from Non-Prescribed Territory Authorities from/to ACT Government Directorate and/or Prescribed Territory Authorities.

C1. BACKGROUND

It is ACT Accounting Policy that when an employee transfers between ACT Government agencies, the employees' leave entitlements will transfer with them. However there is no requirement to pay the gaining agency the leave entitlements that would otherwise be paid to the employee.

For small agencies that do not receive appropriation (namely, non-prescribed territory authorities) payments are required to be made between the entities to ensure the gaining agency does not experience significant budgetary problems i.e. pay an employee's transferred employee entitlements out of its current operating funds with no appropriations.

Detailed below is how employee leave entitlements are to be met by non-prescribed territory authorities and ACT Government directorates.

C2. TRANSFERS FROM ACT GOVERNMENT AGENCIES TO NON-PRESCRIBED TERRITORY AUTHORITY

When an employee transfers from an ACT Government directorate to a non-prescribed territory authority, the non-prescribed territory authority will recognise the employee's leave entitlements.
As non-prescribed territory authorities do not normally receive appropriation, and therefore have no ability to fund liabilities which have accrued in an employee's past, a non-prescribed territory authority shall invoice the agency of which an employee has just left, when the employee commences with the non-prescribed territory authority. This process is detailed below.

C.2.1 PROCESS

Step 1 - Agency provides information to the non-prescribed Territory authority
When an agency has a permanent or long-term contract employee transfer to a non-prescribed territory authority, the following information shall be provided as at the date the employee ceased employment with the agency:

- the nominal value of any accrued long service leave (which includes the nominal value of any in-service on-cost);
- the book value of any accrued annual leave;
- the book value of any leave loading applicable to outstanding annual leave; and
- the period of service with the ACT Government.

Attachment D provides a sample template for agencies to complete and provide to the receiving non-prescribed territory authority when an employee transfers to a non-prescribed territory authority.

C2.1 – Step 1 continued

Non – Permanent Employee Transfer
For the purposes of this policy, an employee accepting a 'temporary' or short-term contract position is not considered to have transferred permanently to the non-prescribed territory authority.

If the employee wishes to use their employee entitlements during this period, relating to the employee's service prior to their transfer to the non-prescribed territory authority, an invoice will be provided to the agency by the non-prescribed territory authority to cover the costs incurred by the employee whilst on temporary transfer (at the rate applicable to the employee's permanent position).

Step 2: The non-prescribed territory authority invoices the agency
When the employee commences permanent employment with the non-prescribed territory authority, the authority must invoice the agency concerned the employee's unpaid employee benefits. The form received by the non-prescribed territory authority (as in step 1 above) will provide the non-prescribed authority with the information needed to generate an appropriate invoice.
In raising the invoice the following journal would be made:

DR Accounts Receivable	Xxx	
CR Annual Leave Provision		Xxx
CR Long Service Leave Provision		Xxx
CR Other Employee benefits		Xxx
To recognise the take-up of a new employee's past service employee benefits		

GST and Transfer Payments
The transfer of employee entitlements will not give rise to a taxable supply under the *A New Tax System (Goods and Services Tax) Act 1999*. When an invoice is raised between the two entities, GST is not to be applied to the transaction.

C.2.2 AMOUNT TO BE TRANSFERRED

The amount to be transferred is a culmination of an employee's annual leave entitlement and long service leave entitlement as reflected in the agency's books on the employees last date of service with that agency.

In relation to the annual leave, all applicable on-costs should also be included. Please refer to **Attachment B** annual leave liability table. The amount to be passed onto the non-prescribed territory authority would be the amount appearing in column H.

In relation to long service leave component, all applicable probabilities and on-costs should also be included. Please refer to **Attachment A** long service leave table. The amount to be passed onto the non-prescribed territory authority would be the amount as appearing in column L. The long service leave component is payable for all employees, including those with less than 6 years of service (as these figures are adjusted for the probability of whether the employee will stay on until long service leave vests).

C.2.3 TIMING AND METHOD OF PAYMENT

Upon an employee becoming a permanent employee within a non-prescribed territory authority, the authority shall issue a tax invoice to the losing agency. This invoice shall be paid promptly in accordance with ACT Government policy.

ATTACHMENT D – SAMPLE FORM TRANSFER OF EMPLOYEE BENEFITS TO/FROM A NON-PRESCRIBED TERRITORY AUTHORITY

Part A – LOSING MANAGER TO COMPLETE					
Employee name:		**From Position No:**		**Hours per week:**	
Classification:		**Division:**			
Branch:		**Directorate:**			
☐ I authorise payroll to provide the employee benefits accrued to _____________ (insert final date of employment) to _________________________________ (insert non-prescribed territory authority). **AND/OR** ☐ Please provide the employee benefits accrued to _____________ (insert final date of employment) to _________________________________ (insert name/position of person in current Agency).					
Losing manager's name:		**Losing manager's signature:** **Date:**	/ /		
Part B – ANNUAL LEAVE					
Hours Available		**Total $**			
Loading hours Available		**Total $**			
		Total Annual Leave & Loading $			
Part C – LONG SERVICE LEAVE					
Hours Available		**Total $**			
Other Information Required					
Part D – OTHER TRANSFERABLE EMPLOYEE BENEFITS					
? Hours Available		**Total $**			
? Hours Available		**Total $**			
		Total Other Benefits $			
Part E – TOTAL AMOUNTS PAYABLE (upon receipt of invoice) TO NON-PRESCRIBED TERRITORY AUHTORITY					
Total $	Please total all categories above		$		
Part F – PAYROLL TO COMPLETE					
Actioned by:		**Signature:**		**Date:**	/ /