AAPP 110
ACT ACCOUNTING POLICY PAPER
ON
EMPLOYEE BENEFITS

Chief Minister, Treasury and Economic Development Directorate

June 2023

Policy start date: For the Financial Year ended 30 June 2023

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1. INTRODUCTION

1.1 APPLICATION

1.1.1 Purpose

This ACT Accounting Policy paper provides guidance to directorates and territory authorities on the accounting for employee benefits. It outlines three shorthand methods that should be used by ACT Government Agencies to calculate their long service leave liability and two shorthand methods to calculate their annual leave liability. It provides illustrative examples that outline how long service leave and annual leave liabilities are calculated. This Policy is to be read in conjunction with Australian Accounting Standard AASB 119 *Employee Benefits.*

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

1.1.2 Application Date

This ACT Accounting Policy applies to reporting periods beginning on or after 1 July 2022. For agencies whose financial year ends on 30 June, this policy is applicable to financial years ending on or after 30 June 2023. For agencies whose financial year ends on 31 December, this policy is applicable to financial years ending on or after 31 December 2023.

1.1.3 Agencies Covered by this Policy

This policy applies to ACT Government Agencies, that is directorates and territory authorities.

1.1.4 Contact

If you have any questions regarding this Policy, contact the Financial Reporting and Framework (FRF) Branch to provide further clarification. Contact details are listed on the Accounting in the ACT Government website: https://www.treasury.act.gov.au/accounting/.

1.1.5 Application of Policy

Requirements of this policy are included in **bold** text, with un-bolded text being background information/commentary.

2. SHORT-TERM EMPLOYEE BENEFITS

2.1 EXAMPLES OF SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are defined as 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 (AASB 119 para 8).

Examples of these benefits in AASB 119 para 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 *Short-Term/Long-Term vs Current/Non-Current*.

2.2 MEASUREMENT OF SHORT-TERM EMPLOYEE BENEFITS

When an employee has rendered service to an agency during a reporting period, the agency shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service (AASB 119 para 11). As such, the undiscounted amount (or nominal amount) is calculated based on the remuneration rates that the agency 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, the amount of annual leave to be settled after 12 months will be a long-term employee benefit which AASB 119 requires to be measured at present value.

2.3 PERSONAL LEAVE

ACT Government agencies must not take up a liability for personal leave where employees are accruing non-vesting personal leave and the average personal 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 personal leave.

An agency must assess whether, on average, its employees are going to take more personal leave than they will accrue in the next 12 months. For example, where employees in an agency accrue 18 days of personal leave a year and the agency expects that on average its employees are going to take 20 days of personal leave over the next 12 months then the agency will have to take up a liability for personal leave. Note that this would only occur in rare circumstances.

3. LONG-TERM EMPLOYEE BENEFITS

3.1 DEFINITION

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 (AASB 119 para 153).

Examples of these benefits include:

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

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 (AASB 119 para 60, 66 and 156).

No specific allowance is required for employees over the age of 55 when compared to those staff under 55 years old, with the exception of the probability factors for these staff (Section 3.2 below).

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

There are four ACT Government accounting steps which have been developed to assist agencies with the calculation of their LSL and AL liabilities. These steps are as follows:

1. **LSL Probability Factor Step – This step is used to adjust the LSL liability for the probability of staff reaching their unconditional LSL entitlement, which is 7 years of service;**
2. **AL/LSL On-Cost Step – This step is used to assist agencies in estimating the percentage of employees that take leave in-service (leave taken while employed), and therefore how much superannuation on-costs, LSL on-costs, AL on-costs, and any other material on-costs are included in the liability. This may also include all directly associated on-costs (e.g. employer superannuation contributions, payroll tax (where applicable) and workers' compensation insurance) to be included where material;**
3. **LSL Present Value Step – This step is used to estimate the present value of the LSL liability; and**
4. **AL Present Value Step – This step is used to estimate the present value of the Annual Leave Liabilities.**

The steps are further outlined below.

3.2.1 LSL Probability Factor Step

Although not specifically required by AASB 119, probability factors should be used when calculating the LSL liability for employees. This approach is a calculation step 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 tables to each employee's LSL balance in accordance with their completed years of service.

The percentages for employees who are under 55 years old are based on the "AGA Shorthand Valuation Step for Long Service Leave Liabilities ACT Government Employees Report" dated June 2022**.**

ACT Government Agencies that do not use Shared Services HR can choose to either use the probability factors in Table 1 for all employees regardless of age, or to apply Table 1 for employees under 55 years old and Table 2 for employees 55 years or older.

Table 1: Probability Table for Employees who are Under 55 Years Old

Completed Years of Service	Recommended ACT LSL Probability Factors
0	0.56
1	0.63
2	0.70
3	0.76
4	0.83
5	0.89
6	0.95
7+	1.00

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 within 0.6%). Therefore, a one size fits all approach as a standardised approach remains appropriate.

Table 2: Probability Table for Employees who are 55 Years or Older

Completed Years of Service	Recommended ACT LSL Probability Factors
0	0.95
1+	1.00

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

3.2.2 AL/LSL On-Cost Step

ACT Government agencies are required to take up Superannuation, Long Service Leave (LSL) and Annual Leave (AL) on-costs that relate to AL and LSL 'taken in-service' as a liability and an expense. The on-cost percentages to be applied are as follows:

On-Cost	Rate
Superannuation On-Cost	
- Employees in CSS[1&2]	18.00%
- Employees in PSS[1&2]	31.50%
- Employees in PSSAP	15.40%
- Employees in Fund of Choice[3]	11.50%
LSL On-Cost[4]	2.464%
AL On-Cost[5]	7.668%

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

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.
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%).

3.2.2.1 Superannuation On-Costs

Superannuation on-costs must be recognised as part of the employee benefit liability because it will be a cost that the agency incurs when the employee takes leave in the future while employed.

Superannuation on-costs are the amounts that agencies pay to the Territory Banking Account, Commonwealth Superannuation Corporation (CSC) and to employees' superannuation funds of choice to cover an agency's superannuation liability.

3.2.2.2 LSL and AL On-Costs

LSL and AL on-costs must be recognised as part of the employee benefit liability because it will be a cost that the agency incurs when the employee takes leave in the future while employed.

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 that relate to AL and LSL as part of the employee benefit liability (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.

On-costs should not be recognised for AL or LSL that are paid out on resignation or retirement, and as such ACT Government agencies should use the following percentages to calculate the LSL & AL taken in-service:

- **45% for LSL; and**

- **90% for AL.**

(Reference: AGA Report June 2022)

Resignation in this respect means resignation from the ACT Government rather than leaving one ACT Government agency and moving to another ACT Government agency.

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.

3.2.3 LSL Present Value Factor Step

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

The 'LSL – PVF' 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 'LSL – PVF' (amongst other things) before inclusion in an agency's financial report.

The Financial Reporting and Framework (FRF) branch will advise the actual LSL-PVF on the Accounting in the ACT Website: https://www.treasury.act.gov.au/accounting.

The 'LSL – PVF' 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 step in the calculation of the long-term LSL liability.

3.2.4 AL Present Value Step

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

<u>1. Annual Leave Taken</u>

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

- 55% of accrued AL will be 'used up' (either as leave or cashed out) within 12 months; and
- 45% will be used up within the following 24 months.

(Reference: AGA Report June 2022)

<u>2. Mean Term of AL Liability - approximately 1 year</u>

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

Calculation to use	Example AL Taken	Mean Term (Years)
55% of accrued Annual Leave will be used up within 12 months	55% x 0.5yr (6 months) =	0.2750
45% will be used up within the following 24 months	22.5% x 1.5yrs =	0.3375
	22.5% x 2.5yrs =	0.5625
Total		**1.1750**

3. AL Present Value Factor (PVF)

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

$$\text{Present Value Factor} = \frac{(1 + \text{Salary Growth Rate*})^{(1.5 \text{ years} - \text{Delay**})}}{(1 + \text{One Year Bond Yield})}$$

*Salary Growth Rate - is the weighted 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

Assume a one year bond rate of 2.75 per cent and an expected average salary growth over the next three years is 3 per cent per annum with the scheduled salary increases to be in increments of 1.5 per cent:

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

Calculation of AL PVF

This gives a present value factor of:

$$PVF = \frac{(1+0.03)^{(1.5 - 0.375)}}{(1+ 0.0275)}$$

$$PVF = \frac{(1.03)^{(1.125)}}{1.0275}$$

$$PVF = \frac{1.034}{1.0275}$$

PVF = 1.006 or 100.6%

The AL 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.

The Financial Reporting and Framework (FRF) Branch will advise the actual 'AL - PVF' on the Accounting in the ACT Website: https://www.treasury.act.gov.au/accounting.

See *Attachment B – Calculation of Annual Leave Liability and Expenses* for an example of how to apply the present value short-hand step 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:

- LSL - the probability and on-cost steps to the agency's unadjusted LSL liability; and
- AL - the on-cost step to the agency's unadjusted AL liability.

Where agencies also use the SS finance (SSF) area, SSF will apply the:

- present value step to agencies' LSL and AL liabilities.

As such, where an agency has their payroll and finance function through SS they will not have to apply the three calculation steps to their employee benefits data.

3.4 UNWINDING OF EMPLOYEE PROVISIONS

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 because, in most cases, the amount of interest costs is likely to be immaterial.

Net interest on the net defined benefit liability is the change during the period in the net defined benefit liability that arises from the passage of time (AASB 119 para 8). That is, the unwinding of a provision due to the passage of time is recorded as an interest cost.

Although AASB 119 para 156(b) requires net interest on the net defined liability relating to long-term employee benefits to be recognised in the financial statements, as stated above ACT Accounting policy allows interest costs to be recorded as employee expenses. Therefore, the movement in a long-term employee benefit liability such as LSL can be recorded as an:

- increase in the employee provision; and
- increase in employee expense.

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

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.

AASB 119 para 8 defines 'short-term' and 'long-term' differently to the definition of 'current' and 'non-current' in AASB 101 paras 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'.

AASB 119 requires that long-term LSL liabilities be measured as the present value of the estimated future cash flows to be made by the employer. Consistent with the actuarial advice received from the Australian Government Actuary, the ACT generally uses a shorthand valuation step for the measurement of the LSL liabilities. The steps for the calculation of LSL liability are in Section 3.2 above.

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. This is one of the criteria for disclosing a liability as current, as outlined in AASB 101 *Presentation of Financial Statements* para 60-76. 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 (see Sections 4.1 and 4.2 below).

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 six 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 six 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 most instances, be transferred with the employee.

Employee benefit liability transfers between a Directorate and a Smaller Agency are discussed in *Attachment C – Transfer of Employee Benefit Liabilities to/from ACT Agencies*.

5.1 ACCOUNTING TREATMENT OF TRANSFERS

There are three broad categories of employee benefit liability transfers between ACT Government agencies, namely:

1. employee benefit liability transfers as part of an Administrative Arrangement (AAs);

   This is accounted for as contributions by owner / distributions to owner and as such the transferee and (transferor) accounts for the liability(s) transferred as a decrease or (increase) in equity. The transferred employee benefit liability is recognised at the transferor's carrying amount (book value).

2. employee benefit liability transfers as part of a government decision to transfer these liabilities between wholly owned ACT Government agencies;

   Where transfers are formally designated as an equity transfer, the transferred liabilities are treated as contributions by owner / distributions to owner. Therefore, the transferee and (transferor) accounts for the liability(s) transferred as a decrease or (increase) in equity. Note, however, that there are a number of requirements that need to be met in order to treat this as equity. Refer to 'AAPP 116 ACT Accounting Policy Paper on Contributions by Owners (AASB 1004 and Interpretation 1038)' for the requirements. The transferred employee benefit liability is recognised at fair value.

3. employee benefit liability transfers between agencies in the ordinary course of business.

   These transfers are not formally designated as an equity transfer, and as such, the transferred liabilities are not treated as contributions by owner / distributions to owner. Therefore these transfers are accounted for as an expense and (revenue) to the transferee and (transferor). The transferred employee benefit liability is recognised at fair value.

For further information in relation to accounting for employee benefit liabilities transferred between agencies refer to 'AAPP 116 ACT Accounting Policy Paper on Contributions by Owners (AASB 1004 and Interpretation 1038)'.

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 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.

The steps for employees receiving PPL payments are 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 the 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 HR21 to the employee.

For agencies that do not utilise the ACT Government HR system, 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 Raising Kids Website - [Raising kids - Services Australia]

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:

A1. Recognition and measurement of the Long Service Leave (LSL) liability; and

A2. Disclosure and calculation of Journal Entries required at 30 June 20X2 for the current and non-current LSL liability.

The example below is based on the following data:

At 30 June 20X1 there was a total LSL liability balance of $70,000 (from the 20X0-X1 Financial Statements) made up of a current LSL liability of $62,000 and Non-Current LSL Liability of $8,000. The example includes superannuation, LSL and AL on-costs.

A1. RECOGNITION AND MEASUREMENT

Recognise and measure the present value LSL liability and expense at 30 June 20X2:

- Obtain the LSL liability for each employee, based on remuneration rates applicable at 30 June 20X2 (e.g. from an agency's HR records).
- Follow the 3 steps for calculating the LSL liability as outlined in Section 3.2 above. The 3 steps involve applying the Probability Factor, On-Costs and the Present Value Factor (PVF). In accordance with Section 3.2 these steps are applied in the following order to adjust the LSL liability for employees (Table 1 column B unadjusted LSL Liability):
    - *Step 1 - LSL probability factors* **–** Step 1 is outlined in section 3.2.1 above. A practical calculation of this step can be seen in Table 1 columns E below;
    - *Step 2 - On-Costs* – Step 2 is outlined in section 3.2.2 above. A practical calculation of this step can be seen in Table 1 across Columns G to L. This calculation includes the ALSLTiS* % of 45%;

      *****ALSLTiS is the Long Service Leave Taken-in-service (long service leave where an employee will be returning to work). This is shown as a percentage and has been obtained from the AGA Report June 2022.
    - *Step 3 - LSL PVF* – Step 3 is outlined in section 3.2.3 above. A practical calculation of this step can be seen in Table 1 column M. Note that a new PVF % is issued by the FRF Branch biannually in December and June).

Table 1 *'Long Service Leave Calculations 20X2'* below outlines the calculation of the 3 steps to adjust the LSL liability for each employee.

Table 1 Long Service Leave Calculations 20X2
ALSLTiS = 45%
LSL PVF = 92.8%

A	B	C	D	E	F	G	H	I	J	K	L	M
Employees	**Unadjusted LSL Liability**	**Years of Completed Service**	**LSL Prob. Factor (LSLPV)**[1]	**Prob. Weighted Accrued LSL Unadjusted**	**Super Fund**	**Super On-Cost Rate**	**LSL On-Cost Rate**	**AL On-Cost Rate**	**Total In-Service On-Cost Rate**	**Total LSL On-Cost Amount**	**Total Nominal LSL Liability**	**Adjusted Total LSL Liability**
				E = B x D					**J =(G + H + I) x ALSLTiS**	**K = E x J**	**L = E + K**	**M = L x PVF***
A1	$8,000	10	1	$8,000	PSS	0.315	0.02464	0.07668	0.187344	$1,499	$9,499	$8,815
B1	$25,000	12	1	$25,000	CSS	0.18	0.02464	0.07668	0.126594	$3,165	$28,165	$26,137
C1	$2,000	9	1	$2,000	PSS	0.315	0.02464	0.07668	0.187344	$375	$2,375	$2,204
D1	$30,000	15	1	$30,000	CSS	0.18	0.02464	0.07668	0.126594	$3,393	$33,393	$31,365
Current	$65,000			$65,000								$68,521
E1	$4,043	2	0.70	$2,830	FoC	0.115	0.02464	0.07668	0.097344	$275	$3,105	$2,881
F1	$6,800	3	0.76	$5,168	PSSAP	0.154	0.02464	0.07668	0.114894	$594	$5,762	$5,347
G1	$1,200	0	0.56	$672	FoC	0.115	0.02464	0.07668	0.097344	$65	$737	$684
H1	$5,000	2	0.70	$3,500	FoC	0.115	0.02464	0.07668	0.097344	$341	$3,841	$3,564
Non-Current	$17,043			$12,170								$12,476
Totals	**$82,043**			$77,170						$10,112	$87,282	$80,997

*see Step 3 below – this rate is published by the Financial Reporting and Framework Branch every six months at [Accounting in the ACT Government – Treasury]

[1] The probability factors included in this example are based on all employees being under 55 years of age.

CALCULATION -Table 1 (above)

Step 1 – Probability Factor (see section 3.2.1)

1. Probability Weighted Accrued LSL Unadjusted (Column E) = Unadjusted LSL Liability (Column B) x LSL Probability Factor (Column D).

   Formula: B x D = E

Step 2 – On Costs (see section 3.2.2)

2. Total In-Service On-Cost Rate (Column J) = 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%).

   Formula: (G + H + I) x ALSLTiS% (45% as per AGA Report June 2022) = J

3. Total LSL On-Cost Amount (Column K) = Probability Weighted Accrued LSL Unadjusted (Column E) x Total In-Service On-Cost Rate (Column J).

   Formula: E x J = K

4. Total Nominal LSL Liability (Column L) = Probability Weighted Accrued LSL Unadjusted (Column E) + Total LSL On-Cost Amount (Column K).

   Formula: E + K = L

Step 3 – LSL PVF (see section 3.2.3)

5. Adjusted Total LSL Liability (column M) = Total Nominal LSL Liability (column L) x LSL PVF 92.8% (in December 2022) / 100 Formula: L x PVF = M. (92.8% LSL PVF% issued by the FRF Branch June and December).

Further information on Financial Statement Disclosures for Employee Benefits is included in the ACT Model Financial Statements available on [Accounting in the ACT Government – Treasury](#).

A2 DISCLOSURE & CALCULATION

Disclosure – Current and Non-Current for LSL Liability

Formula to calculate the Non-Current and Current LSL liability is based on the outcome of the 3 steps in A1 which results in the Adjusted LSL Liability in Table 1 Column M: $80,997.

- **Current LSL Liability –** Column M: $68,521

  (based on HR employees records with 6 years completed service or more (Table 1 column B: A1, B1, C1, D1)

- **Non-Current LSL Liability –** Column M: $12,476

  (based on HR employees records less than 6 years completed service (Table 1 column B: E1, F1, G1, H1)

Calculation – LSL Expense for 20X1-X2

Determine the difference between the 20X1-X2 and the 20X0-X1 LSL, so as to calculate the 30 June 20X2 LSL liabilities journal entries below:

	Total LSL Liability	Total Current LSL Liability	Total Non-Current LSL Liability
'Adjusted Total LSL liability' at 30 June 20X2 Table 1 column M	$80,997	$68,521	$12,476
Less Total LSL liability at 30 June 20X1 (Current $62,000, Non-current $8,000)	$70,000	$62,000	$8,000
Total Expenditure for 20X1-X2 (Journal entry 30 June 20X2)	$10,997	$6,521	$4,476

ATTACHMENT B – CALCULATION OF ANNUAL LEAVE LIABILITY AND EXPENSE

In this example the Annual Leave liability as at 30 June 20X1 is $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 Applied 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
					(C + D + E) x 90% = F	B x F = G	B + G = H
A1	$5,300	0.115	0.02464	0.07668	0.19469	$1,032	$6,332
B1	$2,000	0.315	0.02464	0.07668	0.37469	$749	$2,749
C1	$8,000	0.180	0.02464	0.07668	0.25319	$2,026	$10,026
D1	$10,250	0.154	0.02464	0.07668	0.22979	$2,355	$12,605
E1	$1,100	0.315	0.02464	0.07668	0.37469	$412	$1,512
F1	$4,750	0.115	0.02464	0.07668	0.19469	$925	$5,675
G1	$1,375	0.115	0.02464	0.07668	0.19469	$268	$1,643
H1	$9,300	0.180	0.02464	0.07668	0.25319	$2,355	$11,655
Totals	**$42,075**					**$10,122**	**$52,197**

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% based on the AGA report June 2022) = % 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 AL 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 101.1% (at December 2022 based on AL PVF% issued by the FRF Branch June and December) = Adjusted Annual Leave Liability.

Calculation: $52,197 x 101.1% = $52,771 Adjusted Annual Leave Liability

Note**:** Financial Reporting and Framework (FRF) advises the actual annual leave present value factor in early January and July each year for Not-For-Profit and For-Profit agencies.

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 = $52,771

Less AL 20X0-X1= $40,000

AL Expense = $12,771

Example journal:

Debit - Annual Leave Expense	$12,771	
Credit - Annual Leave Liability		$12,771

B2. DISCLOSURE

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

All annual leave is disclosed as current.

Further information on Financial Statement Disclosures for Employee Benefits is included in the ACT Model Financial Statements available on **Accounting in the ACT Government - Treasury**

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

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.

Where the gaining agency is a small ACT Government agency that receives no or minimal appropriation, it is suggested that the transferring ACT Government directorate pay cash to the gaining smaller agency for the amount of the employee entitlements being transferred to ensure the gaining agency does not experience significant budgetary problems.

Detailed below are how employee leave entitlements are to be treated by smaller agencies and ACT Government Directorates.

C2. TRANSFERS BETWEEN ACT GOVERNMENT AGENCIES

When an employee transfers from a directorate to a smaller agency that receives no or minimal appropriation, the smaller agency will recognise the employee's leave entitlements. As smaller agencies with no or minimal appropriation do not normally have the ability to fund liabilities which have accrued in an employee's past, smaller agencies can request that the directorate pay them for the amount of the employee entitlement. Where this is agreed to, the smaller agency shall invoice the directorate when the employee commences with the smaller agency. This process is detailed below.

C.2.1 Process

<u>Step 1 - Agency provides information to the Smaller Agency</u>

Permanent Employee Transfer
When a directorate has a permanent or long-term contract employee transfer to a smaller agency, the following information shall be provided as at the date the employee ceased employment with the directorate:

- the nominal value of any accrued long service leave (which includes the nominal value of any in-service on-cost);
- the nominal 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 directorates to complete and provide to the receiving smaller agency.

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 smaller agency.

If the employee wishes to use their employee entitlements during this period, relating to the employee's service prior to their transfer to the smaller agency, an invoice will be provided to the directorate by the smaller agency 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 Smaller Agency Invoices the Directorate

When the employee commences permanent employment with the smaller agency, the agency must invoice the directorate concerned for the employee's unpaid employee entitlements. The form received by the smaller agency (as in step 1 above) will provide the smaller agency with the information needed to generate an appropriate invoice.

In raising the invoice, the following journal would be made by the smaller agency:

DR Accounts Receivable	XXX	
CR Revenue from the Recovery of Employee Benefit Liabilities Transferred		XXX

To recognise the revenue for the recovery of the transferred employee benefit liability.

DR Annual Leave Expense	XXX	
DR Long Service Leave Expense	XXX	
DR Other Employee Expense	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 directorate's books on the employees last date of service with that directorate.

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 smaller agency 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 smaller agency 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 smaller agency, the smaller agency shall issue a tax invoice to the directorate. This invoice shall be paid promptly in accordance with ACT Government policy.

ATTACHMENT D – SAMPLE FORM TRANSFER OF EMPLOYEE BENEFITS TO A SMALLER AGENCY

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 smaller agency name). **AND/OR** ☐ Please provide the employee benefits accrued to _____________ (insert final date of employment) to ___________________________________ (insert name/position of person in current Directorate).					
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 THE SMALLER AGENCY					
Total $	Please total all categories above		$		
Part F – PAYROLL TO COMPLETE					
Actioned by:		**Signature:**		**Date:**	/ /

Version	Date	Author	Revision notes
1.0	June 2009	ACT Accounting Branch	First release
2.0	June 2012	ACT Accounting Branch	Second release
3.0	June 2013	ACT Accounting Branch	Third release
4.0	June 2014	ACT Accounting Branch	Fourth release
4.1	June 2017	Financial Reporting and Framework Branch	Fifth release
5.0	June 2019	Financial Reporting and Framework Branch	Sixth release
6.0	June 2021	Financial Reporting and Framework Branch	Seventh release
7.0	June 2022	Financial Reporting and Framework Branch	Eighth release
8.0	June 2023	Financial Reporting and Framework Branch	Ninth release

Chief Minister, Treasury and Economic Development Directorate

June 2023