



FRR 3C Employee Benefit Expenses and Key Management Personnel Remuneration

INTRODUCTION

Policy items, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

Application Guidance, indicated by plain text under the “Application Guidance” sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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3C.1 ACCOUNTING CATEGORISATION

REFERENCES

- AASB 119 *Employee Benefits*

APPLICATION GUIDANCE

Consultants and temporary contractors are not employees

For the purpose of AASB 119, consultants and other persons who are not subject to the direction of the agency are not deemed to be 'employees'.

Payments made to recruitment firms for the procurement of services provided by temporary contractors are not employee benefits for the purposes of AASB 119. Where an agency contracts directly with recruitment firms to procure services (via provision of a temporary contractor), this is a procurement of supplies and services. In this situation, the temporary contractor is an employee of the recruitment firm and therefore payments made in this regard cannot be recognised as an employee cost by the agency.

Accumulating and vesting entitlements

Employee benefits are either accumulating or non-accumulating, vesting or non-vesting. Vesting entitlements are those where employees are entitled to a cash payment for unused entitlements on leaving the entity, e.g. annual leave. Non-vesting entitlements do not entitle employees to a cash payment for unused entitlement on leaving the entity and are paid only on the occurrence of an event e.g. sick leave.

Agencies should be aware of the different criteria within Accounting Standards for measuring short term and long term employee benefits under AASB 119 (discussed below) and classifying employee benefits between current or non-current for financial statement presentation under AASB 101 (discussed in FRR 4C.2).

Short-Term Employee Benefits

Short-term employee benefits are those benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees rendered the related service.

Short-term employee benefits include wages, salaries, levies paid to the ALCS (where applicable), paid sick leave, bonuses and non-monetary benefits. For agencies not in the ALCS, annual leave is classified as a short-term employee benefit only when the entire annual leave liability for the agency meets the short-term employee benefit definition of AASB 119.

If any part of a class of employee benefits is expected to be settled beyond that timeframe, the entire class of benefit will need to be categorised as one of the following types of employee benefit.

Post-Employment Benefits

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. Post-employment benefits include pensions and lump sum payments on retirement, etc.

Other Long-Term Employee Benefits

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits. Other long-term employee benefits include long-service leave, sabbatical leave, long-term disability benefits, etc.

For agencies not in the ALCS, annual leave is classified as an “other long-term employee benefit” when the entire annual leave liability for the agency does not meet the definition of a short-term employee benefit.

Termination Benefits

Termination benefits are employee benefits that arise either as a result of an agency’s decision to terminate employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment.

3C.2 EMPLOYEE EXPENSES

REFERENCES

- AASB 119 *Employee Benefits*

POLICY

- **Employee expenses disclosed in the notes must include wages and salaries, annual leave levy/expense and (if applicable) sick leave expense.**
- **Any salary recouped by an agency must be recorded as a reduction in employee expenses.**
- **Redundancy/termination benefits must be recognised as an expense and disclosed in the Employee Expenses note within “Other Employee Benefits”. However, separate disclosure of these benefits is required if their amount is material when compared to total Employee Expenses.**
- **The expense recognised for the levy payable to the Annual Leave Central Scheme, Long Service Leave Central Scheme, the employer contribution to the central superannuation scheme and the WorkCover premium expense must be separately disclosed in the notes.**
- **Disclosure is required of the number of full-time equivalent employees at reporting date (reflecting Minimum Obligatory Human Resource Information (MOHRI)) including full-time, part-time and casual employees, but not contractors. No adjustment is required for overtime.**

APPLICATION GUIDANCE

Employer superannuation contributions, annual leave levies and long service leave levies are regarded as employee benefits in accordance with AASB 119.

Employee related expenses

Costs that are a consequence of employing employees but are not counted towards an employee’s total remuneration package are not employee benefits e.g. payroll tax (in the case of commercialised business units and statutory bodies) and workers’ compensation insurance. To assist users in calculating the total employee related expenses, agencies should recognise these costs as ‘employee related expenses’ and disclose them separately from ‘employee benefits’.

Employee Transfers

The guidelines for the LSLCS and the ALCS explain the financial implications of transfers of employees. This topic is discussed in FRR 4C Employee Benefits Liabilities.

For non-member agencies of either scheme, the main accounting implications are that, to the extent that cash is not transferred, income or expenses are to be recognised in respect of leave entitlements transferred to another agency or acquired from another agency respectively.

Seconded Staff

Payments made for staff on secondment from other agencies or otherwise employed by an agency on a non-permanent basis e.g. temporary and casual employees, should be included in the total for wages and salaries in the note relating to employee expenses.

Payments received for staff on secondment should be offset against wages and salaries expenses to ensure the reported expenses reflect the actual wages and salaries incurred for staff working for the agency in that financial year.

Where an employee is on secondment and there is a recoupment of employee expenses borne by the employee's usual agency, GST is not applicable to the transaction.

Redundancy and Termination Benefits

Redundancy/termination benefits disclosed for all employees (including for KMP) are to exclude payouts of unused leave entitlements.

Paid Parental Leave

The national Paid Parental Leave scheme came into effect on 1 January 2011. The scheme is funded by the Australian 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.

Parental Leave Pay is in addition to any other obligation the Queensland public sector may have to its employees. Parental Leave Pay is taxable and recipients will usually be paid in arrears.

Queensland public sector agencies will be required to withhold Pay As You Go (PAYG) amounts and provide Parental Leave Pay to the employee in accordance with the usual pay cycle. Further information on the Paid Parental Leave scheme is available at:

<https://www.servicesaustralia.gov.au/paid-parental-leave-scheme-for-employers>

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

Transactions in relation to the Paid Parental Leave are to be recognised on the Statement of Financial Position. That is, a current liability (payable) is recognised immediately upon receiving Paid Parental Leave amounts (i.e. Dr Cash, Cr Payables). The payable is extinguished as payments are made to the Australian Tax Office for PAYG amounts and to the employee (i.e. Cr Cash, Dr Payables).

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.

3C.3 DISCLOSURE OF KEY MANAGEMENT PERSONNEL (KMP)

REFERENCES

- AASB 10 *Consolidated Financial Statements*
- AASB 110 *Events after the Reporting Period*
- AASB 119 *Employee Benefits*
- AASB 124 *Related Party Disclosures*

POLICY

- **Agencies must present comparative disclosures about their KMP (contrary to the prospective application provisions in paragraph Aus28.2 of AASB 124).**
- **Agencies identified as a “department” in a Departmental Arrangements Notice (DAN) must disclose their responsible Minister(s) (using their full portfolio title) as part of their KMP, solely for the identification of KMP under this policy.**
- **All other agencies required to comply with the FRRs must determine whether their responsible Minister (if relevant) meets the AASB 124 KMP definition in respect of their agency. Where that is the case, that Minister (using their full portfolio title) must be disclosed as part of that agency’s KMP, solely for the identification of KMP under this policy.**
- **The notes to the financial statements must disclose the position title and a concise description of responsibilities for each non-Ministerial KMP position.**

APPLICATION GUIDANCE

Agencies must comply with the requirements of this policy in conjunction (and over and above) the disclosure requirements of AASB 124. It should be noted that Crown Law advice received in 2011 concluded that the application of the KMP and remuneration disclosure policies does not conflict with the *Right to Information Act 2009* (Qld), the *Information Privacy Act 2009* (Qld) or any other piece of State or Australian Government legislation.

Identifying KMP

For the purposes of the KMP disclosure policies, an agency's KMP are to be identified according to the definition and criteria articulated in AASB 124, according to the judgement of individual agencies. It would be anticipated that the positions identified as KMP for the purposes of AASB 124 compliance would normally align with the information on "executive management team" set out in the Annual Report in accordance with the *Annual Report Requirements for Queensland Government Agencies*.

The identification of KMP is not intended to be based on strict legal interpretations of responsibilities. As legal responsibilities may be delegated, the identification should be based on the day-to-day operational practices. For the purposes of AASB 124, KMP should **exclude** senior executives who, in general, have **no** role in the planning, directing and controlling of the agency as a whole.

Other senior executive positions that are responsible for their individual areas, and not involved in planning, directing and controlling the activities of the agency as a whole, should not be classified as KMP. Similarly, other staff who hold a titled position of Director but are not involved in planning, directing and controlling the activities of the agency as a whole, should not be classified as KMP.

Identifying KMP – temporary/relieving arrangements

In respect of temporary/relieving arrangements, the position should only be included in KMP disclosures if the staff member concerned was involved in planning, directing and controlling activities for the entire agency for a material part of the financial year.

For example, meeting the KMP definition for a total of four weeks during the financial year should not be considered a material part of the year. Conversely, meeting the KMP definition for a six month period would be a material part of the year. However, agencies have the discretion to provide additional disclosure for personnel occupying significant positions that fall outside the AASB 124 definition. The disclosure in relation to these personnel should be clearly distinguishable.

Identifying KMP – economic entity/consolidated groups

Within a set of consolidated financial statements (and where controlled entities are not consolidated due to materiality), the KMP of the parent are likely to effectively be KMP of the consolidated group. On that basis, KMP disclosures in consolidated financial statements should solely reflect KMP of the parent entity.

Where a controlled entity is itself a reporting entity, that controlled entity needs to prepare its own general purpose financial statements that comply with (at least) AASB 124 from its own perspective.

Change in KMP resulting from a MoG Change

Professional judgement is required in determining who meets the KMP definition, *especially* in the context of a department's structure before and after any moG changes.

Reported remuneration for the transferred position in the transferor department's financial statements will only reflect remuneration from the beginning of that relevant financial year until the effective date of the moG.

For the transferee department, reported remuneration for the transferred position will reflect:

- for a ***newly established*** department, remuneration for the position from the new department's commencement date to the end of the reporting period, as per s.80(2) of the FA Act; or
- for a ***continuing department***, remuneration for the position from the effective date of the moG transfer to the end of the reporting period.

Departments should ensure this note also includes a cross-reference to associated note disclosures about the moG change.

Where remuneration costs for a key management position are reflected in another department's expenses prior to a moG change, the transferee department should disclose in a footnote which department is including such costs in its reported expenses, and the total dollar amount of such remuneration for each relevant key management position.

KMP Shared between Agencies

For some agencies, some or all KMP are shared with other agencies – guidance on dealing with disclosures in that situation is set out under FRR 3C.4 below. In some situations, a person may be a KMP of one agency while providing non-KMP services to another agency. For the latter agency, costs incurred in respect of that position should not appear in the KMP note (any such costs would only be included in Employee Expenses).

Ministers as KMP of agencies

Where a Minister meets the KMP definition in respect of an agency (as per this FRR 3C.3), reference should be made to the relevant model financial statements for suggested disclosures about the Minister. Where an agency (other than a department) determines that its responsible Minister does not meet the KMP definition, no disclosure about the Minister is to be included in that agency's KMP note.

Assistant Ministers do not meet the KMP definition, due to their responsibilities as per the Cabinet Handbook.

Agencies other than departments (as per a DAN) are required to make their own determination about their Minister being part of their KMP, due to the varying legislative/operational arrangements that exist for such agencies. This also applies to agencies that might be regarded as a "department" for purposes other than Departmental Arrangements Notices. Agencies other than departments (as per a DAN) should make their determination about their Minister based on a review of the agency's enabling legislation (where applicable) and current practice.

Ministers as KMP of Government Owned Corporations

Cabinet has agreed to the position that shareholding Ministers are KMP of their respective Government Owned Corporations. Examples of indicators that are relevant in this respect include:

- what operational matters (if any) must be approved by the Minister;
- what consultation must occur with the Minister, and about which activities;
- what directions the Minister can issue to the agency; and
- what type of reporting must go to the Minister about operational/financial matters etc.

In each case, the nature of the matters/activities/directions etc is important - akin to the distinction between the concepts of substantive rights and protective rights in Appendix B (Application Guidance) of AASB 10. When assessing enabling legislation for the rights of a Minister over an agency, consideration should be solely on whether those powers exist, not whether or how often those powers are exercised.

The policies in this FRR 3C.3 regarding disclosure of Ministers as a member of an agency's KMP are the result of:

- the substantial guidance for not-for-profit public sector entities included in the current version of AASB 124;
- the *Constitution of Queensland 2001* - which indicates that the administrative units of Government (i.e. departments) are administered by the respective Minister(s);

- the Cabinet Handbook - which states "*Ministers administer, and are responsible for, their departments of State*" and "*Ultimate responsibility for departmental management rests with Ministers who are legally and politically accountable to the Parliament for the administration of their department(s)*";
- Administrative Arrangements Orders (AAOs) issued by the Governor in Council under the *Constitution of Queensland Act 2001* state that each Minister is to administer the matters (set out next to the respective Ministers' titles) in the AAO (an AAO lists the statutory bodies and departments administered by each Minister); and
- the application of the KMP definition by other States/Territories and the Australian Government.

3C.4 KEY MANAGEMENT PERSONNEL (KMP) REMUNERATION EXPENSES

REFERENCES

- AASB 110 *Events after the Reporting Period*
- AASB 119 *Employee Benefits*
- AASB 124 *Related Party Disclosures*
- FRR 2B *Materiality*

POLICY

- **Agencies must present comparative disclosures about KMP remuneration expenses/disclosures (contrary to the prospective application provisions in paragraph Aus28.2 of AASB 124).**
- **For each KMP, the following expenses must be disclosed as a minimum, by category:**
 - (i) **Short term employee expenses, for the period during which the employee occupied the KMP role, including:**
 - **Wages, salaries, sick leave, allowances recognised as an expense, performance pay recognised as an expense for the year, and non-monetary benefits (including fringe benefits tax) including motor vehicle, housing, goods and/or services received from the KMP's**

employing agency etc (to the extent that any such non-monetary benefits are, in substance, remuneration of the individual);

- **Where the agency is a member of the Annual Leave Central Scheme (ALCS), levies expensed;**
- **Where the agency is not a member of the ALCS and the agency's entire annual leave liability meets the definition of a short term employee benefit, the amount of annual leave entitlements earned and expensed for the period during which the employee occupied the KMP role.**

(ii) Long term employee expenses for the period the employee occupied the KMP role:

- **Long service leave entitlements earned (where the agency participates in a central leave scheme, this only relates to the levies) and recognised as an expense.**
- **Where the agency is not a member of the ALCS and the agency's entire annual leave liability does not meet the definition of a short term employee benefit, the amount of annual leave entitlements earned and expensed.**

(iii) Post-employment expenses, for the period the employee occupied the KMP role:

- **Employer superannuation contributions recognised as an expense for the year.**

(iv) Termination expenses

(v) Performance Payments

- **In respect of performance payments, the following must be disclosed:**
 - ❖ **a description of the basis for payment for performance payment entitlements and the date the performance payment was paid, for each key management person; and**

- ❖ **the performance payments recognised as an expense for the year in relation to KMP in aggregate.**
- **Where performance payment entitlements relating to the reporting period will be determined during the following financial year, affected agencies must disclose that fact, and include an explanation of progress with the performance assessment process as at the date the financial statements are certified by management.**
- **For those agencies where any KMP are conditionally entitled to performance payments at the end of the reporting period, the narrative disclosure in the KMP note must include:**
 - ❖ **the maximum potential performance payment that each relevant key management person may receive in dollar terms;**
 - ❖ **an overview of the performance assessment process; and**
 - ❖ **a brief explanation of the basis for performance payment entitlements.**
- **If none of an agency's KMP has a remuneration package that includes potential performance payments, the agency's KMP note needs to state this clearly.**
- **Prior year comparative information is required for all KMP performance payments**
- **In all situations where a key management position is shared, agencies must include a footnote to the Key Management Personnel note explaining the arrangements for sharing this position, including the name of the other agency and whether (and how) agencies are bearing the associated costs.**

APPLICATION GUIDANCE

Agencies must comply with the requirements of this policy regarding KMP remuneration expenses, over and above the disclosure requirements of AASB 124.

Amounts disclosed in the Employee Expenses note to the financial statements should equal the amount expensed in the Statement of Comprehensive Income. For consistency, **the figures disclosed in the KMP note should also reflect the cost of that KMP's remuneration that is reflected in the agency's net reported expenses** (i.e. after any reimbursements/recoveries of amounts debited to employee expense general ledger accounts). The objective of AASB 124 focuses on the financial impact on the agency (in an accrual accounting sense) during the respective reporting periods that is attributable to key management positions.

Amounts reported for KMP of annual leave and long service leave included in the remuneration expenses note follow the same principle. **Amounts included in reported remuneration figures are not intended to reflect the amount of annual/long service leave physically taken by the KMP during the year or paid out on cessation of employment.**

Where an employee/board member commenced or ceased in a KMP role during the reporting period (including the comparative period), as reflected in the remuneration expenses disclosed, agencies should include in the remuneration table the date of commencement/cessation of that person as KMP. This also applies to temporary/relieving arrangements.

For those KMP employed as part of the Senior Executive Service under the *Public Sector Act 2022*, the total annual motor vehicle benefit provided (including the fringe benefits tax paid) is assumed to be equal to the equivalent vehicle allowance that forms part of the SES Remuneration Rates - refer to directive "*Senior Executive Service – Employment Conditions*" released by the Public Sector Commission.

This is on the basis that the directive "*Executive Remuneration Package – Motor Vehicles and Allowances*" provides that where the grossed-up value is less than their allowance, the difference will be paid to the executive as part of their fortnightly salary but will not be recognised for the purposes of superannuation, etc. (Directives can be found at: <https://www.forgov.qld.gov.au/pay-benefits-and-policy/directives-policies-circulars-and-guidelines>)

Agencies should take into consideration information collected via related party declaration processes regarding goods and/or services received by the KMP themselves from their employing agency. To the extent that the KMP did not pay arm's length consideration for those goods/services, and these are treated as non-exempted reportable fringe benefits, these may constitute non-monetary benefits that are more appropriately reflected in reported remuneration expenses (rather than being separately disclosed as a related party transaction).

In respect of temporary/relieving arrangements, the expenses to be disclosed in the KMP note should directly relate to the period of time during which an employee undertook all responsibilities described in the KMP definition. Refer to FRR 3C.3 for guidance about who should be identified and disclosed as a KMP, including in respect of temporary/relieving arrangements.

KMP Shared between Agencies

If the incumbent of a position provides services to more than one agency, professional judgement is required as to whether that position meets the KMP definition for each agency separately.

Consistency in disclosures between those agencies sharing key management positions is strongly recommended. For example:

- If agencies actually share the costs of a key management position (e.g. according to the relative estimated percentages of time the incumbent spends on each agency) – the figures in the KMP note should reflect the costs each agency actually incurred, as reflected in its reported expenses.
- If an agency is bearing 100% of the costs of a key management position that is shared with one or more other agencies – the figures in the KMP note should reflect that 100% of the remuneration cost.
- If an agency bears no costs in relation to a key management position, it should disclose that position's details in the KMP note, with the various columns referencing an explanatory footnote.

Disclosing Ministerial KMP remuneration

Where a Minister meets the KMP definition in respect of an agency (as per the applicable FRR 3C.3 policy), reference should be made to the relevant model financial statements for Treasury's recommended disclosure about Ministerial remuneration. Agencies would not have any remuneration to report themselves, assuming they don't bear Ministerial remuneration expenses.

Aggregate remuneration for all Ministers (as per paragraph 17 of AASB 124) will be reported in Treasury's annual Report on State Finances – as all Ministers also meet the definition of KMP for the Whole-of-Government.

Performance Payments

The disclosure requirements regarding performance payments apply to all departments and statutory bodies that have KMP whose remuneration packages include potential performance payment entitlements. Performance payments are equivalent to bonus payments under AASB 119. Other bonus payment entitlements under AASB 119 may include (but are not limited to) short and long term incentive plans, at-risk payments and certain deferred/contingent bonus plans.

The performance payments requirements apply to entitlements to which any KMP, not just chief executives, may be entitled.

If performance payments are expected to be settled wholly within 12 months after the end of the reporting period in which the KMP rendered the related services, they are to be accounted for as a short-term employee benefit. Otherwise, they are to be accounted for as a long-term employee benefit under AASB 119.

AASB 110 deals with the treatment of adjusting and non-adjusting events (refer to that standard for further explanation of these concepts). A common scenario is where agency KMP may be conditionally entitled to performance payments as at the reporting date but the obligating event giving rise to the payment does not occur until the subsequent reporting period. In the context of AASB 110 requirements, this would be classified as a non-adjusting event and the performance payment expense will be recognised in the financial year following that to which the payment actually relates.

This also applies to the expenses disclosed in the associated KMP note (refer to the illustrative tables in the Sunshine Department Illustrative Financial Statements note). Being a non-adjusting event, only narrative note disclosure is permissible regarding any performance payments (or potential payments) determined after the end of the reporting period.