FRR 4C Employee Benefit Liabilities

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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4C.1 RECOGNITION AND TYPES OF BENEFITS

REFERENCES

- AASB 119 *Employee Benefits*

POLICY

- **An employee benefit liability for accumulated and unused Time Off In Lieu (TOIL) and Rostered Days Off (RDO) leave at reporting date must be recognised when:**
  - **the amount is material when measured on an agency basis; and**
  - **if it is probable that the outstanding TOIL leave will be used by employees before leaving the agency, or if TOIL is paid out on termination.**
- **AASB 119 does not specifically state that elected members are deemed to be employees. However, in the interests of public information, where employee benefits for elected members are material, they must be disclosed as a liability in the financial statements of the relevant agency.**

APPLICATION GUIDANCE

Overall Criteria for Recognition as a Liability

For an employee benefit liability to be recognised, it must be probable that settlement will be required and that the liability can be measured reliably. All entitlements that vest in an employee satisfy the definitions of expenses and liabilities and should be measured and reported. Non-vesting employee benefits may satisfy the definition of expenses or liabilities but they may not meet the recognition criteria as it may not be possible to reliably measure the liability or expense.

Short-term employee benefits (liabilities expected to be wholly settled within 12 months) are to be measured at their nominal value (i.e. undiscounted).

Employee benefits that meet the definition for other long-term employee benefits are to be measured according to most of the requirements for defined benefit plans under AASB 119 except for the requirement for remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income.

Sick Leave

A present obligation in respect of employees' accumulated sick leave entitlements arises only when it is probable that the sick leave to be taken by employees in any future reporting period will be greater than the entitlements that will be accumulated in that future period.

Where experience indicates that, on average, sick leave taken each reporting period is less than or equal to the entitlement accruing in that period and this trend is expected to recur in future periods, it is unlikely that existing accumulated entitlements will be used by employees. Accordingly, no liability for unused sick leave entitlements should be recognised.

As an example, measured on an agency basis, the average period of sick leave taken per employee over the last three reporting periods is five days per year. The average entitlement to sick leave accruing per employee over the same period is 10 days per year. There is no reason to expect that the number of days taken in sick leave will exceed the 10 days per year accruing in future reporting periods and accordingly, no liability should be recognised.

Annual Leave

Agencies that ***are members*** *of the Annual Leave Central Scheme (ALCS)*

Agencies that participate in the ALCS do not recognise a liability for annual leave entitlements in their financial statements since the employer obligation is held by the State. Therefore, generally only the annual leave levy expenses are recognised as employee expenses.

As the agency itself makes the annual leave payments to employees, it will need to claim back these amounts from the ALCS as a reimbursement. Amounts claimed from the scheme but not actually recouped at reporting date are a receivable for the agency.

ALCS policy specifies the on-costs that are to be included in the ALCS levy calculations. On-cost rates are determined by shared service providers (e.g. Queensland Shared Services) in consultation with the agencies that they service and are reviewed on an annual basis.

The guidelines for the ALCS set out the arrangements for dealing with transfers of employees which depend on whether the transferee agency is a member of the scheme. These guidelines are available at: https://www.treasury.qld.gov.au/resource/annual-leave-central-scheme-guidelines/

Generally, the only accounting consequences for member agencies under the ALCS are where cash payments need to be made to the scheme for a higher remuneration rate applicable after commencement of the employee in the transferee agency.

*Agencies that are **not members** of the ALCS*
Employees' annual leave entitlements at reporting date are to be recognised as accrued employee benefit liabilities.

Where payments such as leave loading are payable under an award, they also should be included in the calculation of the related employee benefit liability, where they are not paid out annually.

All directly associated on-costs (e.g. employer superannuation contributions, payroll tax (where applicable) and workers' compensation insurance) should be included where material. For financial reporting purposes agencies may split the employee benefit liability amount between relevant line items such as payroll tax (where applicable) and worker's compensation.

Where the agency's entire liability for annual leave is not expected to be wholly settled within 12 months of the end of the reporting period, it is to be treated as per other long-term employee benefits. On that basis, the liability is to be accounted for, and disclosed, consistent with defined benefit plans (refer to paragraphs 55 – 152 of AASB 119).

Where an agency is not a member of the ALCS, the main accounting consequences for employee transfers is 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.

Long Service Leave

Agencies that are members of the Long Service Leave Central Scheme (LSLCS)
Agencies that participate in the LSLCS do not recognise a liability for long service leave entitlements in their financial statements as the employer obligation is held by the State. Therefore, generally only the long service leave levy expenses are recognised as employee expenses.

As the agency itself makes the long service leave payments to employees, it will need to claim back these amounts from the LSLCS as a reimbursement. Amounts claimed from the scheme, but not actually recouped at reporting date, are a receivable for the agency.

The guidelines for the LSLCS set out the arrangements for dealing with transfers of employees, which depend on whether the transferee agency is a member of the scheme.

These guidelines are available at:
https://www.treasury.qld.gov.au/resource/long-service-leave-central-scheme-guidelines/

Generally, the only accounting consequences for member agencies under the LSLCS are where a transferred employee previously earned long service leave entitlements at an entity that is not party to the reciprocal leave recognition arrangements outlined in the Queensland Government Awards page (https://www.qirc.qld.gov.au/awards) and the agency chooses to recognise those long service leave entitlements on commencement. In this situation, a cash payment would be made to the LSLCS.

Agencies that are not members of the LSLCS

Generally, agencies which are not part of the LSLCS manage their own leave balances. The following entitlement categories of long service leave are common:

(a) An 'unconditional' legal entitlement to payment arises after a qualifying period of service (e.g. 10 years). Accumulation of long service leave entitlement continues after this point until the leave is taken.

(b) A 'conditional' entitlement exists in certain circumstances (e.g. death, retrenchment, or early retirement under some awards) and a legal entitlement to pro rata payment in lieu of long service leave arises (sometimes only after a qualifying period of service).

(c) Under a 'pre-conditional' entitlement, no legal entitlement to any payment or leave exists before the accumulation of the period of service necessary to qualify for the entitlement described in (a) or (b) above.

In the Queensland public sector there are generally only two categories of long service leave, being an unconditional entitlement and pre-conditional entitlement. However, in some special circumstances (as set out in Public Sector Commission directives) a pro-rata payment may be made to a Queensland public sector employee.

Agencies that are not members of the LSLCS should generally treat their long service leave obligations as other long-term employee benefits. On that basis, they are to be accounted for, and disclosed, consistent with defined benefit plans (refer to paragraphs 55 – 152 of AASB 119).

Where an agency is **not** a member of the LSLCS, the main accounting consequences for employee transfers is 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.

Superannuation

Queensland Treasury's distinction between the two types of superannuation plans is as follows:

- Defined contribution plans – the State's obligation is limited to the amount that it agrees to contribute to the plan. As a result, superannuation entitlement risk (that benefits will be less than expected) and investment risk (that returns on assets invested will be insufficient to ultimately meet expected benefits) fall on the employee.

- Defined benefit plans – the State's obligation is to provide the agreed benefits to current and former employees, resulting in superannuation entitlement risk (that benefits will cost more than expected) and investment risk falling on the State. If superannuation entitlements are greater than expected or investment returns are worse than expected, the State will cover any shortfall.

Defined ***Contribution*** *Plans – No actuarial assumptions*

The accounting and recognition for defined contribution plans is straightforward as the State's obligation for each period is limited to the amounts to be contributed for that period. No actuarial assumptions are required to measure the obligation or the expense, and no actuarial gain or loss arises.

As an employee renders service, agencies must recognise the contributions payable to the superannuation plan:

- as a liability (accrued expense) after deducting any contributions already paid. If the contributions already paid exceeds the contributions due, an agency shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and

- as an expense, unless an accounting standard requires or permits the inclusion of the contribution in the cost of an asset e.g. capitalised into the cost of a non-current asset under AASB 116 Property, Plant and Equipment.

AASB 119 contains the recognition, measurement and disclosure requirements for defined contribution plans.

*Defined **Benefit** Plans (Agencies contributing to the Government Division of Australian Retirement Trust)*

For agencies that contribute to the Government Division defined benefit categories administered by Australian Retirement Trust (the former QSuper defined benefit categories), the employer liability is held by the State (consistent with the ALCS and LSLCS). Hence, no liability for superannuation benefits should be recognised in such agencies' financial statements, except for contributions due and unpaid at balance date.

*Defined **Benefit** Plans (Agencies not contributing to the Government Division of Australian Retirement Trust)*

The accounting and recognition for defined benefit plans is more complex. The ultimate cost to the employer of a defined benefit plan may be influenced by many variables such as final salaries, employee turnover, mortality and the investment earnings on the plan assets.

In order to measure the obligation and the related current service cost it is necessary to:

- determine the deficit or surplus - which involves using a particular actuarial technique to estimate the cost of the employee benefits earned by employees, discounting that benefit in order to determine the present value of the employer obligation and current service cost, and deducting the fair value of plan assets from the present value of the employer obligation;

- determine the amount of the net defined benefit liability (asset);

- determine various amounts to be recognised in the operating result; and

- determine the re-measurements of the net defined benefit liability (asset) to be recognised in other comprehensive income.

Paragraphs 55-152 of AASB 119 contain the detailed requirements regarding the accounting for, and disclosure of, defined benefit plans.

It will be necessary for agencies to engage an actuary to determine an agency's superannuation liability. Agencies should refer to AASB 119 for details about calculation and disclosure requirements. Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* should also be referred to for guidance on:

- how to assess the limit in AASB 119 on the amount of a surplus that can be recognised as an asset by an employer sponsor to a defined benefit plan;
- how a defined benefit surplus/deficiency recognised by an employer sponsor may be impacted by a statutory or contractual minimum funding requirement;
- when refunds or reductions in future contributions should be regarded as available under AASB 119;
- how a minimum funding requirement might affect availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

Other Post-Employment Benefits

These benefits should not apply to most agencies. When they are payable, a liability must be recognised:

- progressively over the reporting periods up to the time when the benefits become vested after a specified qualifying period; and
- in the reporting period an employee is appointed to a specific position where the benefits vest at the time of appointment.

Examples of post-employment benefits include the provision of free or subsidised non-monetary benefits after the completion of employment, such as air or train travel, office accommodation, administrative support and the use of a motor vehicle.

The measurement of a post-employment benefit liability should take into account the probability that some employees will not attain the requisite years of service entitling them to part or all of the benefits.

Termination Benefits

There may be uncertainty regarding the agency's plans regarding terminations or number of employees who will accept an offer of termination benefits. When this uncertainty exists, a liability should not be recognised. Instead, a contingent liability should be disclosed, unless the possibility of termination benefits resulting is remote, in which case, there should be no disclosure. Reference should be made to paragraphs 159-170 of AASB 119 for the requirements for the recognition and measurement of termination benefit liabilities.

4C.2 CURRENT / NON-CURRENT SPLIT

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 119 *Employee Benefits*

APPLICATION GUIDANCE

Distinguishing between current and non-current employee liabilities

For presentation and disclosure purposes under AASB 101, agencies must distinguish current employee benefit liabilities from non-current employee benefit liabilities – this applies to all employee benefits, including performance payments and termination benefits.

Measurement under AASB 119 not affected by AASB 101 presentation

The fact that a class of employee benefit liability (other than short-term employee benefits) may be split into current and non-current components under AASB 101 does not affect how the entire class of benefit is to be measured under AASB 119 (e.g. as an 'other long-term employee benefit'). Agencies should therefore ensure employee benefit liabilities are correctly classified and measured under AASB 119 principles before determining the current / non-current split under AASB 101.

AASB 101 specifies that a liability is classified as current where:

- the entity does not have the right at the end of the reporting period to defer settlement of a liability for at least twelve months after the reporting period; or
- the liability is due to be settled within twelve months after the end of the reporting period.

Consequently:

- any class of employee benefit that meets the definition of "short-term employee benefits" in AASB 119 is a current liability under AASB 101; and
- any class of employee benefit under AASB 119 (other than short-term employee benefits) will be a current liability where either of the two AASB 101 conditions (refer above) are met. (For example, annual leave liability obligations outside the ALCS measured as "other long term benefits" as discussed in the guidance to FRR 4C.1.)