

TREASURER'S DIRECTIONS
ACCOUNTING – EXPENSES
Section A6.2 : Employee Benefits

STATEMENT OF INTENT

Employee benefit expenses typically represent a large component of Agency expenses and as such it is important that accurate financial information about these expenses is available. This Section provides the requirements relating to the identification, recognition and measurement of employee benefit expenses.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Employee Benefit Expenses

- Employee benefit expenses include all forms of consideration given by an Agency in exchange for services rendered by employees.

Recognition of Employee Benefit Expenses

- Employee benefit expenses are to be recognised in the reporting period in which the employee's services are provided.
- Employee benefit expenses will be measured at their nominal amounts where payments are expected to fall due with 12 months of the end of the reporting period, and at present value for other amounts.

Employee Transfers

- An employee transfer may result in the recognition of employee benefit expenses equivalent to employee benefit liabilities transferred (other than long service leave and superannuation liabilities) by the receiving Agency.
- Where an employee ceases employment with an Agency, the Agency is to recognise a reduction in employee benefit expenses where related employee benefit liabilities are not required to be paid out on cessation.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

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AUTHORITIES

Financial Management Act

Financial Management Regulations

Public Employment (Mobility) Act

Public Sector Employment and Management Act

Public Sector Employment and Management By Laws

REFERENCES

AAS 29 Financial Reporting by Government Departments

AASB 119 Employee Benefits

Related Treasurer's Directions:

F2.2 Framework – *Working for Outcomes* : Central Holding Authority

A3.1 Accounting – Liabilities : Overview

A3.4 Accounting – Liabilities : Employee Benefits

A6.1 Accounting – Expenses : Overview

WHAT ARE EMPLOYEE BENEFIT EXPENSES ?

A6.2.1

Employee benefit expenses include all forms of consideration given by an Agency in exchange for services rendered by employees.

- (i) Employee benefit expenses are the entitlements which employees accumulate as a result of providing their services to an Agency. They include benefits that are settled by payment or the provision of goods or services, either directly to the employee or to their spouse, children or other dependants, and to others, such as insurance companies and superannuation funds.
- (ii) Examples of employee benefit expenses include:
- salaries and wages – employee remuneration for the performance of work including bonuses and allowances;
 - recreation leave and recreation leave loading – leave to which an employee is entitled under Public Sector Employment and Management By-Laws 4 to 6;
 - sick leave – leave to which an employee is entitled under Public Sector Employment and Management By-Law 7;
 - long service leave – leave to which an employee is entitled after completing 10 years of continuous service under Public Sector Employment and Management By-Law 8;
 - superannuation – a Commonwealth regulated system under which an Agency contributes to an employee's retirement savings fund; and
 - other employee benefits – may include studies assistance, air fares, motor vehicles, telephones, termination and compensation payments.
- (iii) Although not employee benefit expenses, employee benefit on-costs are other costs incurred as a consequence of employing employees and include payroll tax and fringe benefits tax. These costs will be recognised as expenses when the services to which they relate have been provided.
- (iv) While it is important that the full cost of employees is known, some employee benefit expense information will not be administratively effective to collect. For example, some non-monetary benefits or on-costs associated with employee benefits may be of a minor or insignificant nature. Agencies should remain aware of the administrative cost and materiality of employee benefit information collected.
- (v) The *Financial Management Act* defines an employee, in relation to an Agency, as a person employed by or in the business of the Agency, and includes the Accountable Officer. Employees may be full-time, part time, permanent, casual or employed on a temporary basis.
- (vi) Generally, an employee is any person who is appointed or engaged under an Act, Award or contract of service for salary or wages, to perform duties subject to the direction of the employer. Independent contractors or other entities that are not natural persons, such as companies or partnerships, are not considered employees.

Section A6.2 : Expenses – Employee Benefits

- (vii) Certain employee benefit expenses may be recognised on a net basis for financial reporting purposes. For example, where an Agency recovers an overpayment of recreation leave from an employee it may be credited back to the recreation leave expense account. In addition, reimbursements received relating to seconded staff may also be offset where the Agency receiving the payment continues to pay the employee's salary and related costs.
- (viii) Overpayments of moneys to employees, including salaries and wages and other employee benefit payments, are required to be recovered in accordance with requirements contained in the Financial Management Regulations. For the purpose of the Financial Management Regulations, employee includes former employees and the recovery of any associated employee benefit overpayments.
- (ix) Treasurer's Directions Section A6.1 provides additional instruction and guidance in relation to the recognition and classification of expenses. Detailed instruction and guidance in relation to liabilities and employee benefit liabilities can be found in Treasurer's Directions Sections A3.1 and A3.4 respectively.

SALARIES AND WAGES

A6.2.2

An Agency is to recognise and record salaries and wages as an expense in the reporting period in which the employee's services are provided, at their nominal amounts.

- (i) Employee benefits satisfy the recognition criteria for expenses because as an Agency consumes employees' services, an obligation to compensate employees for that service arises, which is capable of being measured reliably.
- (ii) Employee benefit expenses, such as salaries and wages, will be measured using the nominal basis of measurement. This basis uses remuneration rates that an Agency expects to pay at each reporting date. For example, for an employee who works 20 days and is entitled to \$100 a day, the salaries and wages expense recognised for that period would be \$2,000.
- (iii) Where an employee is currently being paid an ongoing allowance (for example, NT Allowance), this allowance will form part of salaries and wages expenses. In practice, most expenses for salaries and wages are calculated by the Personnel Information and Payroll System (PIPS) and charged automatically to Agency ledgers.
- (iv) The amount of expense incurred for the period will include:
 - actual salaries and wages paid during the period;
 - an increase in expenses related to adjustments for amounts earned or owing but not yet paid at the end of the period; and
 - a decrease in expenses related to adjustments for amounts paid during the period that relate to prior periods.

RECREATION LEAVE

A6.2.3

An Agency is to recognise and record an expense for recreation leave and recreation leave loading in the reporting period in which the employee's services are provided.

- (i) An Agency will recognise an expense for recreation leave and recreation leave loading, as an employee becomes entitled to the benefit (that is, as services are rendered). For Agencies subject to the *Public Sector Employment and Management Act*, these entitlements are contained in the Public Sector Employment and Management By-Laws.
- (ii) Agency recreation leave and recreation leave loading expenses (and associated liabilities) will be measured at nominal amounts for amounts that are expected to fall due within 12 months of the end of the reporting period, and at present value for other amounts.
- (iii) The nominal basis of measurement uses remuneration rates that an Agency expects to pay at each reporting date. Measuring recreation leave expenses at present value includes adjusting the liability (and associated expense) for expected future salary increases and discounting the adjusted liability using the long term bond rate that will be advised by Treasury after 30 June each year.
- (iv) In effect, the recognition of recreation leave expenses occurs simultaneously with the recognition of an increase in recreation leave liabilities. In practice recreation leave liabilities may also decrease (for example, following the measurement of long term liabilities to present value), resulting in a reduction in recreation leave expenses.
- (v) The amount of expense incurred for the period may therefore include:
 - actual recreation leave and leave loading paid during the period;
 - an increase in expenses related to adjustments for amounts earned or owing but not yet paid at the end of the period; and
 - a decrease in expenses related to present value adjustments, and/or adjustments relating to transfers out of the Agency during the period that were accrued in prior periods.
- (vi) In certain situations Agencies will be required to recognise and derecognise employee benefit expenses (and liabilities) that arise as a result of employee transfers. Employee transfers are explained later in this Section and in more detail in Treasurer's Directions Section A3.4.

SICK LEAVE

A6.2.4 An Agency is to recognise an expense for sick leave in the reporting period in which the leave is taken, at nominal amounts.

- (i) Sick leave in the Northern Territory Public Sector is of a non-vesting nature. This means that although sick leave entitlements accumulate to an employee, they will only receive a payment in the event of a valid claim (not for example on resignation).
- (ii) An expense for sick leave is only to be recognised therefore, when an employee makes a valid claim and the amount can be measured reliably. Current processes result in the recognition of sick leave expense as part of salaries in the Standard Classifications.

LONG SERVICE LEAVE

A6.2.5 An Agency is not to recognise an expense for long service leave where the long service leave liabilities and expenses are recognised and recorded in the Central Holding Authority.

- (i) The Central Holding Authority (CHA) holds the long service leave liabilities of Agency employees and as such, long service leave expenses are also recognised and recorded by the CHA rather than in Agency financial statements.
- (ii) Where an employee has prior service recognised for long service leave purposes in accordance with the *Public Employment (Mobility) Act*, the calculation of the long service leave expense (and associated liability) in the CHA will take account of this prior service. Agencies should remain aware that the recognition of employee benefit liabilities (and expenses) related to prior service will depend on relevant employment determinations and may be subject to a period of minimum service.
- (iii) The recording of Agency long service leave expenses and liabilities in the CHA does not remove or diminish an Agency's responsibility in relation to the management and use of long service leave by Agency employees.
- (iv) Additional instruction and guidance in relation to long service leave liabilities may be found in Treasurer's Directions Section A3.4, while Treasurer's Directions Section F2.2 elaborates on the concept of the Central Holding Authority and the items recorded by it.

SUPERANNUATION

A6.2.6

Agencies are to recognise superannuation expenses related to superannuation schemes managed by the Northern Territory Government when superannuation amounts for Agency employees are due to be paid to the Central Holding Authority.

- (i) The CHA also holds superannuation liabilities for those superannuation schemes that are managed by the Northern Territory Government. An example of a superannuation scheme managed by the Northern Territory Government is the Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS). Additional instruction and guidance in relation to liabilities for superannuation may be found in Treasurer's Directions Section A3.4.
- (ii) Superannuation expenses associated with superannuation schemes managed by the Northern Territory Government will be recognised when superannuation payments are due to be paid to the CHA. The basis for this superannuation expense will be an average percentage rate (actuarially determined) of salary plus standard allowances and may differ for each superannuation scheme. In practice, amounts payable to the CHA will be system generated and automatically charged to Agency ledgers.
- (iii) Payments to superannuation schemes that are fully funded, such as the Legislative Assembly Members Superannuation Scheme (LAMS) will be based on actuarially determined rates made in accordance with the relevant scheme legislation. The payment will be recognised as an expense when due to be paid.

A6.2.7

Superannuation expenses payable to employee nominated funds or funds external to Government are to be measured using the rate prescribed by Commonwealth Superannuation Guarantee Levy Legislation and are to be recognised by the Agency when due to be paid to the employee's nominated superannuation fund.

- (i) Payment of the Superannuation Guarantee Levy for employees who commenced employment after 9 August 1999 is calculated using percentage rates prescribed in the *Superannuation Guarantee (Administration) Act*. As at the date of this Treasurer's Directions Section, the percentage rate is 9%. These amounts will continue to be paid directly to the fund nominated by the employee, for example the Australian Government Employees Superannuation Trust (AGEST).
- (ii) Agencies may also be required to pay additional employee superannuation contributions where an employee has requested the Agency to pay a certain amount of his or her salary to their superannuation fund. Such salary sacrifice arrangements are not treated as Agency superannuation expenses.
- (iii) In practice, Agency superannuation and salary sacrifice into superannuation amounts will be calculated by PIPS and automatically charged to Agency ledgers.

OTHER EMPLOYEE BENEFITS

A6.2.8

An Agency is to recognise an expense in the reporting period when other employee benefits are earned or incurred.

- (i) Expenses are recognised when it is probable that there will be a consumption or loss of future economic benefits that can be reliably measured. Where non-accumulative benefits are provided to employees, for instance housing or a vehicle, the expense is recognised in the reporting period during which the benefits are taken.
- (ii) However, should the situation arise where benefits provided to an employee do accrue, a liability and corresponding expense will be recognised in the reporting period that the benefit is accumulated.
- (iii) Other employee benefit expenses (and associated liabilities) will be measured at nominal amounts for amounts that are expected to fall due within 12 months of the end of the reporting period, and at present value for other amounts. Treasurer's Directions Section A3.4 provides instruction and guidance in relation to the measurement of employee benefits.

EMPLOYEE BENEFIT ON-COSTS

A6.2.9

Costs that are a consequence of employees providing employment, but which are not employee benefits, are to be recognised as Agency expenses when the employee benefits to which they relate are recognised as expenses.

- (i) Where the settlement of Agency employee benefit expenses gives rise to the payment of employment on-costs, an Agency expense shall be recognised for those on-costs at the time the expense for the related employee benefits is recognised. For example, an expense raised for the payment of wages will also give rise to an expense for payroll tax.
- (ii) In practice, some employee benefit on-cost information may not be administratively effective to collect at the time the employee benefit expense to which it relates is recognised. Agencies should therefore remain aware of the costs and the materiality of collecting and recognising this information.

EMPLOYEE TRANSFERS

A6.2.10

Where an employee commences employment with an Agency and the employee has transferred from another Agency or from a public employer as defined in the *Public Employment (Mobility) Act*, the Agency is to recognise an employee benefit expense equivalent to the employee benefit liabilities (other than long service leave and superannuation liabilities) that have accrued to the employee and remain unpaid at commencement date.

A6.2.11

Where an employee ceases employment with an Agency, the Agency is to recognise a reduction in employee benefit expenses where related employee benefit liabilities are not required to be paid out on cessation.

- (i) Employee transfers will occur for a variety of reasons and may include employee movements between Agencies resulting from promotion, temporary transfers that become permanent and other transfers. The *Public Employment (Mobility) Act* facilitates mobility in employment and allows employees to retain accrued employee benefits when transferring to or from certain areas of public employment, including Agencies.
- (ii) Where employees transfer between Agencies, the receiving Agency will recognise an expense and a liability equivalent to the employee benefit entitlements transferred. The transferring Agency will recognise a reduction in liabilities and a corresponding reduction in either:
 - cash, where leave is paid out on cessation; or
 - expenses, where leave is not paid out on cessation.
- (iii) Further instruction and guidance in relation to employee transfers is provided in Treasurer's Directions Section A3.4 – Employee Benefit Liabilities.