

Our Ref: D/001693

Circular Memorandum No 2/00

TO ALL AGENCIES

TRANSFER OF FUNDING FOR LEAVE ENTITLEMENTS

Purpose

The purpose of this memorandum is to inform agencies of Government policy requiring the transfer of funding for employee leave entitlements upon transfer of employees between Tasmanian State Government Agencies.

Background

The Department of Treasury and Finance has reported to the Budget Committee on the excess annual and long service leave balances of staff of inner Budget agencies since 1997. The report to the Budget Committee meeting of 19 November 1999, on excess leave balances as at 30 September 1999, indicated that there are still a significant number of State Service employees with excess leave, despite attempts to reduce balances.

To provide a greater incentive for agencies to reduce excess leave balances, the Budget Committee, by Decision No 174 of 8 March 2000 (endorsed by Cabinet Decision No 702 of 3 April 2000) decided to implement a policy whereby when a Tasmanian State Service employee is transferred or promoted to another Tasmanian State Service agency, the agency releasing the employee will be required to make a cash payment to the receiving agency equivalent to the total accrued annual and long service leave liability of the employee being transferred.

The new policy will attribute the cost of the leave to the department where the benefits of the employee's services accrued. The current system of not transferring funding for leave liabilities is inequitable, favouring the agency losing the employee, as a liability is transferred to the receiving agency without a corresponding transfer of funding. The agency receiving the employee is currently required to meet the cost of transferred leave liabilities on an emerging cost basis from its global allocation. This has the potential to cause significant future budgetary and staff management problems, particularly for smaller agencies. The policy of transferring funding with leave balances will address this issue.

While the major objective of the transfer of funding policy is to reduce the inequity outlined above, the policy will also provide further incentive for all agencies to correctly manage their employees' leave entitlements in accordance with the *Long Service Leave (State Employees) Act 1994* and the *Tasmanian State Service Regulations 1985*. Correct management of leave entitlements is important due not only to the significant contingent liability that leave balances constitute, but also the occupational health and safety problems which will result if employees do not take adequate leave.

The impact of major Government initiatives, such as a significant redeployment of staff, or an agency restructure, could result in significant funding being transferred from one department to another. Under these circumstances, supplementary funding may be considered on a case by case basis.

Commencement Date

The policy is to commence from 1 July 2000.

Timing and Method of Payment

The department releasing the employee is to make the payment to the agency receiving the employee within 30 days from the date the employee is transferred.

Payment is to be made by direct debit or by cheque, whichever is the most efficient in the circumstances.

Amount to be Transferred

This policy is to apply to all Tasmanian State Service employees.

Any leave entitlements accrued through prior service with a recognised organisation (for example, the Commonwealth Public Service) are to be included in the following calculations.

The amount to be transferred to the receiving agency is the total accrued annual and long service leave entitlement of the employee as at the date the employee is transferred. This amount is to be as calculated in accordance with Australian Accounting Standard 29 (AAS29) – *Financial Reporting by Government Departments*, Australian Accounting Standard 30 (AAS30) – *Accounting for Employee Entitlements*, and the Department of Treasury and Finance's Accrual Accounting Guidance Release 2/97.

Measurement of annual leave entitlement

In accordance with paragraph 21 of AAS30, liabilities which arise in respect of annual leave, regardless of whether they are expected to be settled within 12 months, shall be measured at their nominal amounts.

Measurement of long service leave entitlement

The amount to be transferred in respect of employees who have at least 10 full years of service is their existing long service leave entitlement.

For employees who have completed more than one but less than 10 years of service, long service leave entitlement is to be calculated in accordance with AAS30, which requires the

measurement of long service leave liabilities to be determined at the present value of the estimated future cash outflows to be made by the employer in respect of services provided by employees.

When measuring long service leave, consideration must be given to:

- the probability of entitlements resulting in payments (the greater the years of service, the greater the probability an employee will eventually take long service leave);
- the inflation factor used to account for future increases in remuneration rates; and
- the discount rate used to determine the present value.

The Department of Treasury and Finance's Accrual Accounting Guidance Release 2/97 was issued on 27 March 1997 to assist agencies in measuring long service leave liabilities in accordance with AAS30. The Guidance Release included probability profiles of an employee reaching ten years service for each department, as developed by the State Actuary. Treasury provides agencies with the applicable wage inflation and discount factors to calculate long service leave entitlements annually in July.

The tables attached to this Circular indicate the probability factors for each department and the current wage inflation factor and the discount rate.

To calculate the amount of funding to be transferred in respect of the employee's long service leave liability, it is necessary to determine the value of the employee's long service leave liability to both the releasing and receiving departments. This is calculated by multiplying the employee's nominal long service leave entitlement by the wage inflation factor, dividing by the discount factor, and multiplying by the probability factor applicable to the department.

The amount to be transferred in respect of long service leave is the lower of the two calculated long service leave liabilities. This is to prevent a department incurring any unfair advantage or disadvantage from an employee transfer.

Example One

An employee of the Department of Premier and Cabinet, who commenced working for the Tasmanian State Service on 2 January 1992, is to be transferred to the Department of Treasury and Finance, effective from 1 July 2000.

The employee's nominal long service leave liability (number of days long service leave accrued multiplied by current salary) as at 1 July 2000 is \$10 000, and their annual leave liability is \$2 000.

The employee's long service leave liability to the releasing department, the Department of Premier and Cabinet, is:

Inflated liability	= \$10 000.00 (service value)	x	1.03327225 (inflation factor)	= \$10 332.72
Discounted liability	= \$10 332.72 (inflated liability)	÷	1.10544196 (discount factor)	= \$9 347.14
Calculated liability	= \$9 347.14 (discounted liability)	x	0.8608 (probability factor)	= \$ 8 046.02

The employee's long service leave liability to the receiving department, the Department of Treasury and Finance, is calculated in the same manner, except that the probability factor changes to 0.9172, giving a calculated long service leave liability of \$8 573.20.

In this case, the employee's calculated long service leave liability to the receiving department is greater than their existing liability to the releasing department. So as to not disadvantage the Department of Premier and Cabinet, however, the amount to be transferred is not to be greater than the releasing department's liability as at the date of transfer, in this case \$8 046.02.

The Department of Premier and Cabinet would be required to make a total payment of \$10 046.02 to the Department of Treasury and Finance, representing the sum of the employee's nominal annual leave liability and calculated long service leave liability. The payment is to be made within 30 days of the employee transfer; in this example by 31 July 2000.

Example Two

All details remain the same as in example one, except that the employee is to be transferred from the Department of Treasury and Finance to the Department of Premier and Cabinet.

The calculated long service leave liability of the employee to the releasing department (the Department of Treasury and Finance) is \$8 573.20, while for the receiving department (the Department of Premier and Cabinet) it is \$8 046.02.

So that the Department of Premier and Cabinet does not receive a windfall gain from receiving the employee, the amount to be transferred in respect of the employee's long service leave liability is limited to the liability of the receiving department, in this case \$8 046.02. As in example one, the total amount of funding to be transferred is \$10 046.02, to be paid by 31 July 2000.

Should you have any queries in relation to the implementation of the above policy, please contact Roger Campbell on extension 4528.

D W Challen
SECRETARY

May 2000