This Treasury Circular outlines the accounting treatment for long service leave (LSL), annual leave and related consequential costs, applicable to NSW public sector agencies (including Statutory State Owned Corporations) for financial years ending on or after 30 June 2014.

This Circular outlines the accounting treatment for long service leave (LSL) and annual leave for NSW public sector agencies in accordance with Australian Accounting Standards. The Circular applies to NSW public sector agencies (including Statutory State Owned Corporations) for financial years ending on or after 30 June 2014.

This Circular withdraws and supersedes Treasury Circular NSW TC12/06. Key changes are as follows:

<table>
<thead>
<tr>
<th>Change</th>
<th>Requirement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superannuation guarantee</td>
<td>As a result of changes in the superannuation guarantee (SG) rate from 1 July 2013, the Treasury has updated:</td>
<td>Part A, Section 2.3</td>
</tr>
<tr>
<td>guarantee rate</td>
<td>• The defined contribution superannuation consequential cost on LSL</td>
<td>Part B, Section 2.2</td>
</tr>
<tr>
<td></td>
<td>• The defined contribution superannuation consequential cost on annual leave.</td>
<td></td>
</tr>
<tr>
<td>Australian Accounting</td>
<td>As a result of the change in the definition of short-term employee benefits (para 5), annual leave and related costs are likely to be classified as long-term employee benefits. However, Treasury having regard to the actuary’s advice, has determined that General Government Sector (GGS) agencies can continue to apply the nominal approach plus the annual leave-on-annual leave liability (using 7.9% of the nominal value of annual leave) to approximate the present value of the annual leave liability. Treasury notes that for most agencies discounting would be immaterial, but that this should be assessed by each agency. Other NSW public sector agencies should determine whether annual leave needs to be re-classified and measured as a long-term employee benefit in accordance with the Standard.</td>
<td>Part B, section 1</td>
</tr>
<tr>
<td>Standard AASB 119 Employee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This Circular also clarifies the accounting treatment of the consequential cost of LSL accruing while on annual leave. This consequential cost is assumed by the Crown for Crown Funded LSL agencies, where the Crown assumes their LSL. These agencies should recognise the expense and revenue upon the Crown’s assumption of the liability (Refer to Part B, Section 2.3)

This Treasury Circular is issued as a direction under Section 9 and 45E of the Public Finance and Audit Act 1983. A separate reference to the Circular will also be included in the Statement of Corporate Intent of SOCs.

Mark Ronsisvalle
for Secretary

Further information:
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Accounting Policy: Dianne McHugh 9228 5340
NSW Treasury Internet: www.treasury.nsw.gov.au
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      2.2 Reporting requirements
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Background

- Accounting for Long service leave (LSL) and annual leave\(^1\) is outlined in AASB 119 *Employee Benefits*.\(^2\) Since the previous Treasury Circular (NSW TC12/06) was issued on 14 March 2012, the Standard has been revised and this may impact the accounting for agencies’ annual leave liabilities. In addition, increases in the superannuation guarantee (SG) rate from 1 July 2013 have changed the superannuation defined contribution consequential costs on LSL and annual leave.

This Circular incorporates these changes.

Apart from post-employment benefits, such as superannuation, there are two main categories of employee benefits under AASB 119:

- Short-term employee benefits – these are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employee renders the related services (AASB 119, para 8).

- Other long-term employee benefits – these are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits (AASB 119, para 8). These include LSL and deferred compensation if not expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services (AASB 119, para 153).

Provisions for both short and other long-term employee benefits are calculated as the amounts that are expected to be settled. Short-term benefits are not discounted to present value but long-term benefits are discounted. Costs that are a consequence of employment but are not actual employee benefits are recognised as liabilities and expenses when the employment to which they relate has occurred.

Application

This Circular is issued for financial years ending on or after 30 June 2014 and is issued as a Treasurer’s Direction in accordance with Sections 9 and 45E of the *Public Finance and Audit Act 1983*. This Circular applies to all entities that must prepare general purpose financial reports under the Act, including Statutory State Owned Corporations (SOCs). A specific reference to the Circular will be included in the Statement of Corporate Intent of SOCs. This Circular withdraws and supersedes NSW TC12/06.

This Circular must also be read in conjunction with NSW TC11/19 regarding the provision of personnel services to statutory corporations and NSW TC10/04 regarding the funding arrangements for LSL and transferred officers leave entitlements (or any replacement Circulars).

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\(^1\) Long service leave is often termed extended leave and annual leave is often termed recreation leave. However for the purposes of this Circular they will be referred to as long service leave (LSL) and annual leave respectively.

\(^2\) Refer to compiled AASB119 (operative date from 1 July 2013) on the AASB website: [www.aasb.gov.au](http://www.aasb.gov.au)
PART A - LONG SERVICE LEAVE AND CONSEQUENTIAL COSTS

1. Recognition and measurement of LSL

Employees reach an unconditional legal entitlement to LSL after a qualifying period of service (e.g. seven or ten years). For shorter service periods, LSL may be payable on exit in some (but not all) circumstances.

Under accrual accounting, a LSL liability is recognised even though a legal entitlement may not have yet arisen:

“...an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.” (refer AASB 119, para 72)

Under AASB 119 (para 155), future liability for LSL is first estimated and then discounted to present value using the same methodology applied to defined benefit superannuation plans (with some minor exceptions). This is measured as the present value of the estimated future cash outflows to be made by the employer for services provided by employees up to the reporting date. The rate used to discount LSL to present value must be determined by the 'market yields on government bonds', consistent with the estimated term of the obligation (refer AASB 119, para Aus83.1).

AASB 119 permits the use of short hand measurement techniques to approximate the present value basis (para 60). Periodically, the difference between using the short hand method and full present value method must be compared and adjusted for any material differences. In the NSW public sector the exact methodology used will vary depending on the agency category, as discussed below.

2. Agency accounting for LSL where the Crown assumes the liability

The Crown assumes the LSL liability (including some consequential costs) of certain GGS agencies. Appendix 1 of NSW TC10/04 Funding Arrangements for Long Service Leave and for Transferred Officers Leave Entitlements (or its replacement Circular) lists these agencies.

Where the Crown assumes LSL liabilities, the agencies do not recognise a LSL liability in their Statement of Financial Position. However these agencies must still recognise a LSL expense and equivalent revenue for the liabilities assumed by the Crown, based on certain factors and Treasury calculations, as outlined below. This is a short hand method used to approximate the present value of the LSL liability assumed.

Based on sample data, Treasury has received actuarial advice of the estimated LSL entitlements expected to be paid by making a projection for each employee based on their current salary and LSL balance, assumed rates of taking LSL in service, rates of death, disablement, retirement, resignation and rate of salary escalation. The resulting cash flows will need to be converted to a present value by discounting the obligation using the appropriate 'market yields on Commonwealth

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3 The government bond rate is the appropriate discount rate for both for-profit and not-for-profit entities in the NSW public sector (refer to NSWTC11/04, NSWTC 11/17 and NSWTC 13/02 or replacement Circulars).

4 Agencies were previously referred to as “Budget Dependent Agencies” under the Circular NSW TC10/04 and “GGS agencies whose LSL is assumed by the Crown” in the replaced Circular NSWTC 12/06. The change in terminology does not, of itself, change the status as to whether the LSL is assumed by the Crown. The status of LSL assumption remains unchanged in this Circular.
government bonds’ (refer AASB 119 para Aus83.1). This discount rate varies from time to time and the present value for the financial statements for each financial year must be calculated by using the discount rate as at year end.

Once the Commonwealth government bond rate is determined, NSW Treasury and agencies will be in a position to calculate the present value of LSL and the related consequential costs assumed, using simple factors. The procedure to do this is discussed further in the following section.

2.1 Calculating LSL assumed by the Crown

To calculate the present value of the LSL liability and consequential costs (refer to Part A, Section 2.3 below), the agencies whose LSL is assumed by the Crown must provide the following information to the Crown by completing Appendix A:

- The aggregate nominal LSL balances (LSL balance x salary) as at 30 April for applicable employees with more than five (5) years’ service
- Estimated total annual salary of all employees (i.e. not just those employees included in the nominal calculation) for the financial year

The above calculations should be based on current pay rates. Detailed information at the individual employee level is not required unless requested by the Crown Entity.

Based on the nominal LSL value calculated by the agency, market yields on government bonds as at 30 June (year-end) and valuation ratios provided by the Treasury’s actuary, Treasury will calculate and advise agencies the present value of LSL liability and consequential costs to be assumed by the Crown.

Each agency must report the LSL at present value and consequential costs assumed by the Crown and provide the certificate of reconciliation in the Crown Data Return. This must be done annually as part of the requirement of the annual “Financial Accounting Arrangements for the Crown Entity” Circular.

2.2 Reporting requirements

Agencies are to complete Appendix A and forward to Treasury by 19 June of each year. Treasury will advise agencies of the present value of their LSL liability and consequential costs assumed by the Crown within 5 working days after 30 June (i.e. 7 July 2014 for 2013-14). This is done via a return of the completed lower section of Appendix A from Treasury to the agencies.

Departments should co-ordinate properly with the agencies relating to their Departments whose LSL is assumed by the Crown, to avoid any possible errors due to duplication or omission of LSL liabilities being reported in Appendix A.
2.3 Consequential costs on LSL

Costs that are a consequence of employment, including those that are not themselves employee benefits are recognised as liabilities and expenses when the employment to which they relate has occurred. There are various LSL related consequential costs, including additional employee benefit costs that arise on incurring LSL. These costs are not assumed by the Crown, with certain exceptions. Having regard to actuarial advice NSW Treasury has determined the LSL related consequential costs factors. A summary of appropriate factors to calculate these costs and if they are assumed by the Crown are as follows:

Table 1: Agency consequential LSL cost factors

<table>
<thead>
<tr>
<th>Consequential costs on LSL(^5)</th>
<th>Treatment</th>
<th>NSW Health factor (^6)</th>
<th>Other Agency factor (^7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superannuation – defined benefits(^8)</td>
<td>Assumed by the Crown</td>
<td>1.8% of present value of the total LSL liability*</td>
<td>2.4% of present value of the total LSL liability*</td>
</tr>
<tr>
<td>Superannuation – defined contribution</td>
<td>Not assumed by the Crown</td>
<td>3.68% of present value of the total LSL liability*</td>
<td>3.15% of present value of the total LSL liability*</td>
</tr>
<tr>
<td>Annual leave accrued while on LSL taken in service</td>
<td>Not assumed by the Crown</td>
<td>4.2% of present value of the total LSL liability*</td>
<td>4.2% of present value of the total LSL liability*</td>
</tr>
<tr>
<td>Workers Compensation Insurance</td>
<td>Not assumed by the Crown</td>
<td>1.0% of present value of the total LSL liability*</td>
<td>1.0% of present value of the total LSL liability*</td>
</tr>
<tr>
<td>Payroll Tax</td>
<td>Not assumed by the Crown</td>
<td>Nil(^10)</td>
<td>5.45% of present value of the total LSL liability*</td>
</tr>
</tbody>
</table>

* Present value of the LSL liability as advised by Treasury (the Crown).

The same factors are applied to both the current and non-current portion of the LSL liability. This is consistent with AASB 119 (para 69) which states that for long-term employee benefits, an entity discounts the whole of the benefit obligation, even if part of the obligation is expected to be settled before 12 months after the reporting period.

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\(^5\) No allowance for LSL accruals while on LSL is required as Treasury’s actuary has included this in the present value of LSL.

\(^6\) The consequential cost factors in this column apply only to the non-departmental staff of NSW Health e.g. Local Health Districts’ employees, whose LSL liabilities were transferred to the Crown in December 2010. Departmental employees of the Department of Health are to continue to use the consequential cost factors for the other Crown Funded LSL Agencies.

\(^7\) The consequential cost factors provided are intended to be generally appropriate across other Crown Funded LSL Agencies. However, where there are indications that the consequential cost factors are not appropriate (i.e. where they would give rise to material misstatements), due to the different circumstances of the particular agency, the agency should discuss this with NSW Treasury.

\(^8\) The Crown will calculate this for each agency after the agency submits Appendix A (refer Part A, Section 2.1).

\(^9\) The Crown will calculate this for each agency after the agency submits Appendix A (refer Part A, Section 2.1).

\(^10\) This applies to agencies with an average annual leave accrual of between 4 and 4.5 weeks per year. If an agency has an average annual leave higher than 4.5 weeks per year, it can scale the factor in proportion to its average annual leave as 4.2% x average leave accrual in weeks per year / 4.25 weeks per year.

Under the Payroll Tax Act 2007, wages paid or payable by a health care service provider are exempt from payroll tax.
Agencies must separately identify payroll tax (expense and liability) for TOES reporting to Treasury, so that it can be eliminated in the consolidated financial statements of the State.

The changes in the superannuation – defined contribution factors for 2013-14 (i.e. previously 3.15% for Health and 2.7% for other Crown Funded LSL agencies) are to be treated prospectively, as a change in estimate, in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

2.4 Accounting treatment

LSL liability

An expense and liability of the agency is recognised on initial occurrence. When the LSL liability is assumed by the Crown, the agency’s liability is extinguished and a revenue equivalent to the liability assumed is recognised.

Consequential cost liability – assumed by the Crown

An expense and liability for the LSL related consequential costs are recognised when the related LSL is recognised. The Crown assumes the related defined benefit superannuation consequential cost. The assumption of this liability is recognised as revenue by the agency.

Consequential cost liability – not assumed by the Crown

All other consequential costs not assumed by the Crown are the responsibility of the agency and the liabilities for those remain with the agency. These liabilities will need to be split between current and non-current liabilities. Consequential costs arising from unconditional LSL must be classified as a current liability (refer Part C, Section 1).

Based on actuarial advice for LSL assumed by the Crown, on average approximately 95% of the LSL and related consequential costs is current, and 5% is non-current. Agencies should use this as the basis for the current/non-current allocation, unless they can demonstrate otherwise. The current/non-current classification is further discussed in Part C, Section 1.
3. **Agency accounting for LSL where agencies contribute to LSL Pool**

A number of GGS agencies are in the Agency Funded Crown LSL Pool. These agencies make contributions to the Pool, in accordance with NSW TC10/04 *Funding Arrangements for Long Service Leave and for Transferred Officers Leave Entitlements* or its replacement Circular. Employers in this Pool directly meet their long service obligations to employees, and subsequently receive a reimbursement. The list of agencies in the Agency Funded Crown LSL Pool can be found in Appendix 2 of NSW TC10/04 or its replacement Circular.

These agencies are required to follow the same valuation methodology as applied to Crown Funded LSL Agencies by providing the nominal LSL balance to Treasury so that the present value of the LSL can be calculated.

### 3.1 Procedure for calculating and reporting

Agencies in the Agency Funded Crown LSL Pool must complete Appendix A and forward it to the Treasury by **19 June** of each year. Refer to Part A, Section 2.1 for more details on the information required in Appendix A.

Treasury will calculate the present value of the LSL liability and advise agencies by completing Part B of Appendix A. Agencies will receive the present value fax advices within five working days after 30 June (i.e. 7 July 2014 for 2013-14).

The Crown does not assume the defined benefit superannuation liability of agencies in the Agency Funded Crown LSL Pool. Thus, the related consequential cost will not be included in the Treasury’s LSL calculations.

Each Agency Funded Crown LSL Pool member is required to report the present value of LSL liability in the Crown Data Return. This should be done each year as outlined in the annual Treasury Circular “Financial Accounting Arrangements for the Crown Entity”.

### 3.2 Accounting treatment

**LSL liability**

Agency Funded Crown LSL Pool employers will recognise the amount of payments expected to be made to the employees as LSL liabilities and the amounts expected to be reimbursed by the Crown Finance entity (CFE) as assets.

The LSL contribution to the Pool is recognised as an expense in the Statement of Comprehensive Income and each year the revised LSL liability and equivalent asset are recognised in the Statement of Financial Position. This is consistent with the treatment of reimbursement rights in AASB 119 (para 116), where the reimbursement right is recognised as a separate asset, but in the Statement of Comprehensive Income, the expense may be presented net of the amount recognised for the reimbursement. Consistent with NSW TC10/04 (or its replacement Circular), reimbursement from the CFE is ‘virtually certain’ and satisfies criteria for recognition as a separate asset.

No cash payments to the Crown are required to fund the difference between the present value of LSL as calculated by Treasury and the LSL nominal value in agency records (i.e. as the present value of the Agency Funded Crown Pool LSL liability varies year to year).

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11 Agencies previously referred to as the Non-Budget LSL Pool under the Circular NSW TC10/04 and to as Crown LSL Pool under the replaced Circular NSW TC12/06.
Consequential cost liability

For consequential costs applied to LSL calculations, the Agency Funded Crown LSL Pool agencies can use the factors applicable to other Crown Funded LSL Agencies as calculated by Treasury’s actuary (refer to Part A, Section 2.3), where appropriate. Consequential costs are the responsibility of the agency and must include the provisions for consequential costs in their own financial statements.

4. Accounting for LSL by other Agencies

Agencies that are not Crown Funded LSL Agencies or not part of the Agency Funded Crown LSL Pool must either use the full present value methodology in accordance with AASB 119, or a short hand method to approximate the present value. If using a short hand method, agencies must periodically compare the difference between using the short hand method and the full present value method and adjust for any material differences. This may require a periodic actuarial review.
PART B – ANNUAL LEAVE AND CONSEQUENTIAL COSTS

1. Recognition and Measurement of Annual Leave

In accordance with the revised AASB 119, para 8, annual leave can only be recognised as a short-term employee benefit where these benefits are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. Short-term annual leave is measured on an undiscounted basis using remuneration rates expected to be paid when the obligation is settled. For example, liability estimates would take account of any 1 July pay increases payable to employees of public sector agencies.

In the NSW public sector, it is unlikely that the annual leave benefit will be settled wholly before 12 months after the end of the annual reporting period. As a result, annual leave is likely to be a long-term employee benefit which the Standard requires to be measured at present value. Previously annual leave was mostly recognised as a short-term employee benefit and measured on an undiscounted basis.

However, in practice depending on the profile of the annual leave benefits, the impact of reclassification from a short-term (undiscounted) employee benefit to a long-term employee benefit (present value) may be immaterial.

Specifically, Treasury has confirmed that even where annual leave is determined as a long-term employee benefit, General Government Sector agencies can apply the nominal (undiscounted) approach plus the annual leave-on-annual leave liability to approximate the present value of the annual leave liability. Actuarial advice supports Treasury’s view that the impact of inflation and discounting is immaterial to annual leave.

Based on Treasury’s assessment, the annual leave-on-annual leave liability is calculated at a factor of 7.9%\(^{12}\) on the nominal value of annual leave.

For example, if an agency has a nominal value of annual leave of $1,000,000, the present value\(^ {13}\) is calculated as $1,000,000 \( \times (1 + 7.9\%) = $1,079,000 \).

Annual leave-on-annual leave is not a new annual leave liability to agencies. This may have been previously treated as part of annual leave consequential costs or formed part of the annual leave valuation. Therefore, re-classification of annual leave as a long-term employee benefit may not have a significant impact for these agencies.

Treasury notes that in the majority of cases discounting would be immaterial, but if an agency has a high proportion of annual leave balances significantly in excess of 40 days, they should consider projecting and discounting the annual leave. This should be assessed by each agency every year.

NSW public sector agencies outside the General Government Sector should review the treatment of their annual leave liability, including assessing whether there is likely to be any material difference between the present value and undiscounted basis.

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\(^{12}\) This applies to agencies with an average annual leave accrual of between 4 and 4.5 weeks per year. If an agency has an average annual leave accrual higher than 4.5 weeks per year, it can scale the factor in proportion to its average leave as 7.9\% \( \times \) average leave accruals in weeks per year/4.25 weeks per year.

\(^{13}\) The present value is used as a basis for calculating annual leave consequential costs as discussed in Part B, Sections 2.1 to 2.3 of this Circular.
2. Consequential costs on annual leave

As with other employee benefits, where material, the consequential costs associated with annual leave (payroll tax, workers compensation insurance, LSL and superannuation), are recognised as expenses and liabilities (or revenue, where assumed by the Crown) when the employment to which they relate has occurred.

For the Crown Funded LSL Agencies, the consequential costs of defined benefit superannuation and LSL accruing while on annual leave are assumed by the Crown. These agencies should not accrue these consequential costs as liabilities. Instead, the amount assumed by the Crown must be recognised as revenue.

The calculations of certain consequential costs are outlined below. If application of the requirements in this Circular result in a change in the factors previously applied, this change should be accounted for prospectively, as a change in estimate, in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

2.1 Defined benefit Superannuation- assumed by the Crown for Crown Funded LSL Agencies

Consequential defined benefit cost factor to be applied to the present value of annual leave balances =

\[ \text{Proportion of annual leave liability attributed to defined benefit members} \times \text{proportion of annual leave that is taken in service} \times \text{accruing defined benefit costs}. \]

Based on the Treasury actuary’s assessment, the accruing defined benefit cost on annual leave taken in service is 14% (for GGS agencies whose defined benefit superannuation is assumed by the Crown)\(^{14}\).

For example, if an agency has 30% of its annual leave liability attributed to defined benefit members and if 90% of annual leave is taken in service, the consequential defined benefit cost factor to be applied to the present value of annual leave balance is 3.78% which is calculated as follows:

\[ 30\% \times 90\% \times 14\% = 3.78\% \]

Where defined benefit superannuation is assumed by the Crown (refer NSWTC 11/04), any additional superannuation liability accruing on the annual leave liability is also assumed by the Crown and is recognised as an expense and revenue (i.e. defined benefit superannuation assumed by the Crown).

These agencies must report the consequential defined benefit costs on annual leave assumed by the Crown in the Crown Data Return. This must be done annually as part of the requirement of the annual Treasury Circular “Financial Accounting Arrangements for the Crown Entity”.

For those agencies whose defined benefit superannuation is not assumed by the Crown, this consequential cost is recognised as an expense and liability.

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\(^{14}\) Other agencies (whose defined benefit superannuation and LSL are not assumed by the Crown) should determine their own accruing defined benefit cost and LSL factors on annual leave. They can consider the rate of 14% (defined benefit cost-Part B, Section 2.1 of this Circular) and of 2.1% (LSL cost-Part B, Section 2.3 of this Circular) as a guide.
2.2 Defined contribution Superannuation- not assumed by the Crown

Consequential defined contribution cost factor to be applied to the present value of annual leave balances =

\[
\text{Proportion of annual leave liability attributed to defined contribution members} \times \text{proportion of annual leave that is taken in service} \times \text{accruing defined contribution rate applying in the year following the balance date}^{15}.
\]

For example, for the year end 30 June 2014, if an agency has 70% of its annual leave liability attributed to defined contribution members and if 90% of annual leave is taken in service, and the accruing defined contribution rate for the year 2014-15 is 9.5%\(^{15}\), the consequential defined contribution cost factor to be applied to the present value of annual leave balances is 5.99% which is calculated as follows: 70% x 90% x 9.5% = 5.99%

2.3 Long Service Leave - assumed by the Crown for Crown Funded LSL Agencies

Based on Treasury's assessment, the consequential long service leave (LSL) accruing cost on annual leave factor to be applied to the present value of annual leave balances is 2.1\(^{16}\).

For example, if an agency has a $1,079,000 annual leave present value balance (including 7.9\% annual leave-on-annual leave factor) at the year end, the consequential LSL accruing cost on annual leave is calculated as follows:

\[
\$1,079,000 \times 2.1\% = \$22,659
\]

Where the LSL liability is assumed by the Crown, the related LSL accruing cost on annual leave is also assumed by the Crown. Any LSL liability accruing on the annual leave liability assumed by the Crown is recognised as an expense and revenue by the Crown Funded LSL Agencies.

Those agencies must report the consequential long service leave cost on annual leave assumed by the Crown in the Crown Data Return. This must be done annually as part of the requirement of the annual Treasury Circular “Financial Accounting Arrangements for the Crown Entity”.

For those agencies whose LSL is not assumed by the Crown, this consequential cost is recognised as an expense and liability.

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\(^{15}\) The Federal government has introduced draft legislation to delay increasing compulsory super for two years. If the legislation is passed, the next increase to compulsory (9.5\%) super will not be until the 2016-17 financial year. As such, agencies should refer to defined contribution rate (or known as superannuation guarantee rate) for the year following the balance date on ATO website: [www.ato.gov.au](http://www.ato.gov.au).

\(^{16}\) Crown Funded LSL Agencies must apply this 2.1\% in their calculations. This rate assumes 90\% of annual leave is taken in service. For other GGS agencies whose LSL is not assumed by the Crown, they should apply this 2.1\% in their calculations. Where there is a material difference from 90\% annual leave taken in service, they can scale the factor by \% annual leave taken in service / 90\% X 2.1\%. 
PART C – PRESENTATION AND DISCLOSURE – LSL AND ANNUAL LEAVE

1. Current / non-current liabilities

Under AASB 101, *Presentation of Financial Statements*, liabilities must be classified as current where the agency does not have an unconditional right to defer the settlement of a liability for at least 12 months after the reporting period.

All annual leave and unconditional LSL must be classified as a current liability even where the agency does not expect to settle the liability within 12 months.

AASB 119 contains requirements about the recognition and measurement of employee benefits. AASB 101 covers requirements on whether an item is presented as current or non-current. AASB 101 current and non-current classifications do not necessarily align with the distinction between short-term and long-term employee benefits under AASB 119. For example, an unconditional LSL liability must be classified as ‘current’ in the Statement of Financial Position (per AASB 101), but it must be recognised and measured as a long-term employee benefit (per AASB 119, para 69).

As stated in the Part A, Section 2.4, based on actuarial advice for LSL assumed by the Crown, on average approximately 95% of the LSL and related consequential costs is current and 5% non-current. Agencies should use this as the basis for the current / non-current allocation, unless they can demonstrate otherwise.

Similarly, annual leave must be classified as ‘current’ in the Statement of Financial Position, but it may be recognised and measured as a long-term employee benefit.

AASB 101 (para 61), states that for each liability line item that combines amounts expected to be settled no more than 12 months after the reporting period and more than 12 months after the reporting period, an entity must disclose the amount expected to be settled after more than 12 months. In the notes, the current liability (i.e. annual leave and current portion of LSL) must be split between what is expected to be settled within 12 months and what is expected to be settled in more than 12 months after the reporting period.

2. Other disclosures

Disclosure requirements for GGS agencies are outlined in the Financial Reporting Code. While AASB 119 does not require specific disclosures about short-term employee benefits and other long-term employee benefits, other Australian Accounting Standards may require disclosures.

For example, AASB 101 would require separate disclosure of employee benefit expenses, where material. For-profit entities may also be required to make additional disclosures, where required by AASB 124 *Related Party Disclosures*. This includes disclosures regarding short-term and other long-term employee benefits for key management personnel. Please refer to applicable Accounting Standards for further guidance.
Appendix A

LSL Return-Crown Funded LSL Agencies and Agency Funded Crown LSL Pool agencies

Submit this form by 19 June of each year to:

Fax: Senior Financial Accountant (Fax 9228 3210); OR Email: Crown_Entity@treasury.nsw.gov.au

Part A

Actuarial valuation of LSL liability as at 30 June 20_______

Agency name ____________________________ FIS or Profit centre number ______________

Email_____________________________ Telephone_____________ Fax __________

In accordance with this Circular (NSW TC14/04), we have calculated the nominal value of LSL balance as at 30 April 20____ for employees that have completed 5 or more years of service.

$'000

Long service leave present value - As at the end of the previous year
(Opening balance i.e. total of current and non-current LSL liability, as advised by Treasury in the previous year)

_____________________

Estimated total salary of all employees for financial year17

_____________________

Long service leave nominal value of current year- As at 30 April

_____________________

*Refer to accompanying notes particularly Part A Section 2 (for Crown Funded LSL Agencies) and Part A Section 3 (for Agency Funded Crown LSL Pool) of this Circular for more guidance in completing this form.

Explanations for any large movements in the LSL balance (if applicable):

Signed _____________ Date__________

Name________________________

Part B

Completed by the Crown
(The Crown will convert the submitted nominal values to present values and fax to you within 5 working days after 30 June (i.e. 7 July 2014 for 2013-14)

Liabilities assumed by the Crown as at 30 June 20_________ $'000

Long service leave present value - As at 30 June 20_________
(Base for calculating consequential costs)

Consequential costs - defined benefits superannuation – where assumed by the Crown, excluding Agency Funded Crown LSL Pool agencies18 - 1.8% for NSW Health and 2.4% for other Crown Funded LSL Agencies

Total LSL present value and related consequential costs assumed by the Crown

_____________________

Senior Financial Accountant (Crown) Date__________________

(Attach a copy of this duly signed certificate with your Crown Data Return)

17 This represents the estimated aggregate salaries paid during the financial year, where the salary is at any time is the actual salary applicable for determining LSL payments in service.

18 The defined benefit superannuation consequential cost is not included in the Agency Funded Crown LSL Pool calculations.