

Home and Community Care (HACC) Program in Western Australia

Accounting for Labour Costs (and Leave Provisions)

Policy

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Department of Health
December 2007

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1 Purpose

The purpose of this policy is to provide guidance to HACC funded service providers on:

- How to account for labour costs, and;
- How accounting for labour costs can impact on leave provisions.

HACC recognises that many service providers will already have suitable policy and procedures in place to account for both labour costs and leave provisions.

This policy is aimed mostly at those service providers who need guidance in order to comply with the unit cost model in accounting for labour costs.

Service providers should at least meet the leave provision accounting described in this policy when accounting for leave.

2 Background

Labour costs of direct workers should include labour on-costs. The on-costs are:

- Annual leave;
- Sick and Carer leave;
- Superannuation Guarantee Charge;
- Workers Compensation Insurance.

Direct employees differ from those in overhead departments, as the labour cost per hour of service delivery is a critical component of unit costing.

The unit cost model is consistent with good practice for allocating labour costs.

The implementation of the unit cost model requires that labour is accounted for in such a way that all labour on-costs are included in the rate (usually hourly) charged for labour.

Many service providers do not employ a comprehensive labour rate and so have a distorted labour cost.

Service providers are required to comply with AASB 119 - Employee Benefits. Compliance with AASB 119 will ensure that service providers have properly accounted for leave provisions.

Service providers were previously required to keep a provision for sick leave. This is no longer required.

3 Leave Provisions

HACC requires that service providers provide for annual leave for all employees and LSL for employees with more than 7 years service. The unit cost of labour for direct workers should include the cost of annual and Long Service Leave (LSL) provided.

The unit cost of labour for direct workers should include the cost of sick and carer leave. However, HACC does not require that a provision be maintained for sick and carer leave.

4 Using a Leave Inclusive Labour Rate

In simple and perfect models employees take their leave when it is due. Hence, public holidays, 4 weeks annual and up to 10 days sick and carer leave are taken each year. This is not the case with LSL. LSL is taken irregularly, if ever. Some employees terminate their employment before achieving entitlement.

Leave has the potential to distort unit labour costs. When direct employees take leave and the leave cost is charged as a direct cost and there is no service delivery for the period, then the unit cost calculation is distorted.

HACC requires that service providers charge direct labour and direct labour on-costs to each service type. This is relatively simple where employees work on only one service type and take their holidays when due.

When employees work on more than one service type allocating leave costs is more complicated. We recommend that when employees are charged to multiple service types that a labour rate inclusive of leave costs is adopted. The recommended approach is to use an inclusive labour rate that includes the annual leave and sick and carer leave (and LSL if entitled) accrued cost. This means that leave is provided for; and when leave is taken, the cost of the leave time is charged to the leave provision account.

Hours per annum paid (52 X 38)	1976
Annual Leave hours per annum (4 X 38)	152
Sick and Carer Leave hours per annum (2 X 38)	76
Worked hours per annum	1748
Annual Leave hours accrued per paid hour (152/1976)	.07692
Sick and Carer Leave hours accrued per paid hour (76/1976)	.03846
LSL hours accrued per paid hour (depending on circumstances and only if employee is entitled)	.01667

Payroll systems usually have the ability to automatically calculate annual and sick leave entitlements. Note that all time taken as leave also accrues leave entitlements. In other words, we accrue annual leave while we are on leave. The payroll system will provide for leave hours on 'paid' hours rather than 'worked' hours.

The entitlement to leave should be identified and included in the labour costs each accounting period.

When employees take leave, the costed leave payment is charged to the appropriate leave provision account. The balance in the provision accounts is periodically confirmed as adequate. This adequacy assessment is made at least annually when preparing the financial statements.

When leave costs are included in the rate, the actual hours worked at their costed rate is charged to the appropriate service type each pay period. The leave amounts recovered are then credited to their appropriate provision accounts. Viz -

Assume an employee earns \$10 per hour and works on two distinct service types in a pay fortnight, incurs some client travel time and takes 8 hours leave.

		\$	
Dr	Assessment (30 hours)	334.61	@ 11.1538/hour
Dr	Client Care Coordination (30 hours)	334.61	@ 11.1538/hour
Dr	Client Care - Travel Time (8 hours)	89.23	@ 11.1538/hour
Dr	Annual Leave Provision (8 hours)	89.23	@ 11.1538/hour
Cr	Gross Pay Clearing (76 hours)	760.00	@ 10.0/hour
Cr	Annual Leave Provision (76 hours)	58.46	@ .7692/hour
Cr	Sick and Carer Leave Provision (76 hours)	29.22	@ .3846/hour

Note that the hours worked information is available from employee pay records and is the same data that is entered into the MDS.

Sick and Carer Leave:

Sick and carer leave is included in the labour rate. However, there is no requirement to accumulate a sick leave provision. HACC no longer requires cash funding of 25% of the sick leave provision. Hence, no balance is required at the end of a financial year.

Long Service Leave:

The LSL accrual depends on the terms of employment. HACC requires that LSL be provided for employees with more than 7 years service.

The SACS award provides for 13 weeks LSL after 15 years of service.

There is entitlement after 7 years of service to LSL on termination.

Employees can request $\frac{2}{3}$ of their entitlement after 10 years and then $\frac{1}{3}$ after a further 5 years.

Hence, for employees covered by the SACS award the inclusive labour rate should include an LSL component for all those employees with more than 7 years of service.

In the example above the inclusive pay rate would include a provision for .01667 hours each fortnightly pay period to cater for LSL.

These principles apply to the Unit Cost model.

However those entities complying with accounting standards will have to meet the requirements of the standards. Service providers may apply the requirements of AASB 119 in making provision for LSL. AASB 119 requires that estimates are made as to the likelihood of all staff achieving LSL entitlement and a provision calculated accordingly. This 'nominal' value of the provision is then adjusted to cater for the present value of the cash outflow and also to allow for potential wage rate growth. HACC does not require these adjustments to be made in the unit cost labour rates.

Weakness of this Model:

This is a very simple and effective model.

No model provides the perfect treatment for leave accounting. In this model there is still potential for distortion. For example, if an employee does not take leave one year and takes two lots in the subsequent year there will be distortion of the costs.

The second year will have fewer direct cost hours worked as there will be two quotas of annual leave. The fewer worked, and costed hours, in the second year will still attract the payroll burdens of SGC and workers compensation insurance. This is an acceptable distortion risk. Employees should take their leave regularly.

This model only includes annual and sick and carer leave in the labour rate.

Service providers still have to allocate direct worker SGC and workers compensation costs to service types.

Service providers still have to allocate public holiday costs to service types.

Some service providers may wish to operate more complex models whereby the 9% SGC and workers compensation insurance costs and public holiday paid time are incorporated in the rate. Section 4 deals with a more complex model.

Vehicle costs, if part of an employee's package can also be factored into their labour rate. This is recommended if practical to implement.

5 Using a Comprehensive Labour Cost Rate Applying Available Hours

This is a more complex alternative model.

The available time in any year is not 52 weeks and is adjusted to reflect actual hours available for work.

Weeks in Year	52
Hours in Year 52 X 38	1976
Less Public Holidays - 10 days	76
Less Annual Leave - 20 days	152
Less Sick and Carer Leave - 10 days	76
Available Hours per annum	1672
Less LSL if taken in the year	0
Available Hours per annum if LSL entitled	1672

Hours in a year:

This model assumes 38 hours per week. However, the hours per week can vary.

Sick and carer leave:

This is the annual entitlement; it should be adjusted to reflect the 'norms' of your employees. Some service providers may have a much lower incidence of sick and carer leave and may elect to reduce the available hours by less than the 10 days allowed here.

E.g. some service providers may experience an average of 6 days per year and use 45.6 hours in their model rather than the 76 shown.

Long Service Leave:

LSL is different to other forms of leave. It is not taken regularly each year and so does not reduce the available hours each year. It reduces the available hours in the years in which it is taken.

Employees become entitled to LSL depending on their terms of employment or award. There is usually an obligation to pay LSL on termination after 7 years of service. HACC requires that LSL is provided for employees with more than 7 years service.

Once an employee has become entitled to LSL the ongoing accrual for the leave should be taken to account as part of the hourly labour cost. Once entitled to LSL, an employee will take LSL when due or be paid out their entitlement when they leave. Either way, it should be provided for.

In a financial year when LSL is taken, the available hours for the employee are further reduced by the LSL taken. In a year when an extended period of leave is taken, this will have a significant impact on the available hours.

Training time:

In some models the regular training undertaken by direct workers to retain accreditation is factored into the available time. This further reduces the available time and, thereby, treats training time as a direct cost.

In this model a rate is determined for each available hour. The rate recovers all the direct payments to the employee and all related payroll burdens such as SGC and workers compensation insurance.

The labour hours are costed at the predetermined rate and the amounts recovered placed in the provision accounts. Viz -

		\$
Dr	Labour Expense Accounts	
Cr	Payroll Recovery Account	
Cr	Annual Leave Provision	
Cr	Sick and Carer Leave Provision	
Cr	Long Service Leave Provision	
Cr	SGC Recovered	
Cr	Workers Comp Recovered	

Weakness of this Model:

This is a very effective model used in many businesses. It too has its flaws.

It requires that leave be taken regularly. If not taken then the actual hours worked will exceed the assumed 'available' hours and over-recover the payroll burdens.

When extended leave is taken then the payroll burdens are spread over fewer 'available' hours. To reduce this distortion, the SGC should be included in the value of the leave provisions.

This is an acceptable distortion risk.

Attachment

Definitions

AASB 119:

Publication of Australian Accounting Standards Board dealing with 'Employee Benefits'. Employee leave entitlements are among the benefits covered by the standard.

SACS Award:

This is the Social and Community Services award. This is the award applicable to Australian Services Union members.

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