

# Addendum to Health Services Annual Reporting Guidelines 2005-2006

Under Financial Management Act 1994

## **Replacement Note 1 (u) Employee Benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

### **Measurement of short-term and long-term employee benefits**

Short-term employee benefits are those benefits that are expected to be settled within 12 months, and are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. They include wages and salaries, sick leave<sup>1</sup>, annual leave, long service leave and accrued days off that are expected to be settled within 12 months.

Long-term employee benefits are those benefits that are not expected to be settled within 12 months, and are measured at the present value of the estimated future cash outflows to be made by the Health Service in respect of services provided by employees up to reporting date. They include long service leave and annual leave<sup>1</sup> not expected to be settled within 12 months.

The present value of long-term employee benefits is calculated in accordance with AASB 119 *Employee Benefits*. Long-term employee benefits are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national Government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### **Classification of employee benefits as current and non-current liabilities**

Employee benefit provisions are reported as current liabilities where the Health Service does not have an unconditional right to defer settlement for at least 12 months. Consequently, the current portion of the employee benefit provision can include both short-term benefits, that are measured at nominal values, and long-term benefits, that are measured at present values.

Employee benefit provisions that are reported as non-current liabilities also include long-term benefits such as non vested long service leave (ie where the employee does not have a present entitlement to the benefit) that do not qualify for recognition as a current liability, and are measured at present values.

### **Superannuation**

#### ***Defined contribution plans***

Contributions to defined contribution superannuation plans are expensed when incurred.

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<sup>1</sup> Delete if not applicable

***Defined benefit plans***

The amount charged to the Operating Statement in respect of defined benefit plan superannuation represents the contributions made by the Health Service to the superannuation plan in respect to the current services of current Health Service staff. Superannuation contributions are made to the plans based on the relevant rules of each plan.

The Health Service does not recognise any defined benefit liability in respect of the superannuation plan because the Health Service has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance has assumed responsibility for the defined benefit liability of the Health Service, and administers and discloses the State's defined benefit liabilities in its financial report.

**Termination Benefits<sup>1</sup>**

Liabilities for termination benefits are recognised when a detailed plan for the termination has been developed and a valid expectation has been raised with those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payments is uncertain, in which case they are recognised as a provision.

**On-Costs**

Employee benefit on-costs are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

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<sup>1</sup> Delete if not applicable

## **New Note 1 (am) Net result From Continuing Operations Before Capital & Specific Items**

A-IFRS allows the inclusion of additional subtotals on the face of the operating statement when such presentation is relevant to an understanding of an entity's financial performance. This financial report includes an additional subtotal entitled "Net result From Continuing Operations Before Capital & Specific Items".

Capital and specific items, which are excluded from this sub-total, comprise:

- Capital purpose income, which comprises all tied grants, donations and bequests received for the purpose of acquiring non-current assets, such as capital works, plant and equipment. It also includes donations of plant and equipment (refer note 1 (q)). Consequently the recognition of revenue as capital purpose income is based on the intention of the provider of the revenue at the time the revenue is provided.
- Specific income/expense, comprises the following items, where material:
  - Voluntary departure packages
  - Write-down of inventories
  - Non-current asset revaluation increments/decrements
  - Diminution in investments
  - Restructuring of operations (disaggregation/aggregation of health services)
  - Litigation settlements
  - Non-current assets lost or found
  - Forgiveness of loans
  - Reversals of provisions
  - Voluntary changes in accounting policies (which are not required by an accounting standard or other authoritative pronouncement of the Australian Accounting Standards Board)
- Impairment of non current assets, includes all impairment losses (and reversal of previous impairment losses), related to non current assets only which have been recognised in accordance with note 1 (n)
- Depreciation and amortisation, as described in note 1 (m) and (z)
- Assets provided free of charge, as described in note 1 (q)
- Expenditure using capital purpose income, which comprises expenditure using capital purpose income which falls below the asset capitalisation threshold and therefore does not result in the recognition of an asset in the balance sheet. The asset capitalisation threshold is set at \$XXX (2005: \$XXX).

### **Other amendments:**

#### **(1) New line item in the Operating Statement**

Insert "Expenditure Using Capital Purpose Income" immediately after "Assets Provided Free of Charge"

#### **(2) Note 3g: Specific Income**

Amend so it is consistent with the items in accounting policy note 1 (am).

#### **(3) Note 3h: Specific Expenses**

Amend so it is consistent with the items in accounting policy note 1 (am).

# Replacement Note 19a: Employee Benefits

	Parent Entity 2006 \$'000	Parent Entity 2005 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
<b>CURRENT (refer note 1 (u))</b>				
Long Service Leave				
- short-term benefits at nominal value				
- long-term benefits at present value				
Annual Leave				
- short-term benefits at nominal value				
- long-term benefits at present value				
Accrued Wages and Salaries				
Sick Leave <sup>1</sup>				
Other (List) <sup>1</sup>				
<b>TOTAL</b>				
<b>NON-CURRENT (refer note 1 (u))</b>				
Long Service Leave				
Other (List) <sup>1</sup>				
<b>TOTAL</b>				
<b>Movement in Long Service Leave:</b>				
<b>Balance at start of year</b>				
Provision made during the year				
Settlement made during the year				
<b>Balance at end of year</b>				

[1] Delete if Not Applicable.

## Commentary - Employee Benefits

AASB 119 *Employee Benefits* sets out the reporting requirements for employee benefits.

Employee benefits include long service leave, accrued wages and salaries, annual leave, accrued days off, post employment benefits and termination benefits. On-costs such as WorkCover and superannuation provision should be included in the calculation of leave provisions.

Provision is made in the accounts for obligations in respect of long service leave and annual leave entitlements not taken at balance date. The amounts are to be accrued annually at remuneration rates expected to apply when the obligation is settled, that is the expected future increase in remuneration rate and comply with the requirements of AASB 119.

FRD 17A *'Long Service Leave Wage Inflation and Discount Rates'* permits agencies to use other wage inflation rates in the calculation of LSL where agencies can clearly demonstrate that for industry-specific reasons, the use of the alternative rates will result in more relevant and reliable LSL calculations. It is currently envisaged that the Department will not provide the industry-specific rates to health services and payroll bureaus as it has done in previous years, and that the DTF defined rate will be applied.

All staff, including **S.97** staff, are deemed to be employees of the health service whether employed directly or indirectly. As such all employee benefits are to be accrued by the entity.

Refer accounting policy note 1(u) for an explanation of short-term and long-term employee benefits and their measurement under A-IFRS, and for details of the classification of employee benefit provisions into current and non-current liabilities.

### **Sick Leave**

A liability should only be recognised if it is probable that sick leave expected to be taken in future reporting periods will be greater than entitlements which are expected to accrue in those periods.