

Hospital Circular 34/2008

Date Issued: 19 November 2008

Distribution: Public Hospitals, Denominational Hospitals, Ambulance Services, Health Purchasing Victoria, Infertility Treatment Authority, Victorian Institute of Forensic Mental Health and Dental Health Services Victoria

Purpose: To update the accounting treatment for Long Service Leave (LSL) and associated funding and to define salaries and wages

This circular applies to Public Hospitals, Denominational Hospitals, Ambulance Services, Health Purchasing Victoria, Infertility Treatment Authority, Victorian Institute of Forensic Mental Health and Dental Health Services Victoria.

This circular reissues with amendments Circular 13/2008, which was withdrawn on 1 July 2008. The reinstatement was made necessary due to the downwards movement of bond rate resulting from volatility in major financial markets.

This circular consists of two parts:

- (A) Submission Date:** The calculation of LSL debtor as at 30 June.
- (B) Accounting for LSL:** Provides accounting treatment for the funding of Long Service Leave.

(A) Submission Date

The LSL provision should be calculated at 30 June and the LSL return submitted to DHS by the **7th working day of July**.

Failure to adhere to the submission date may result in DHS not accruing a creditor for your agency.

Submission Process

1. Obtain the wage inflator and discount rate as at 30 June from the DTF web site:
<http://www.dtf.vic.gov.au/CA25713E0002EF43/pages/bfm-financial-reporting-policy-long-service-leave-models-and-wage-inflation-and-discount-rates>
2. Obtain LSL entitlements (from payroll provider) as at 30 June.
3. Calculate LSL provision.
4. DHS will confirm the amount of Grants and Transfer Payments Receivable from Victorian Government Entities arising from the additional LSL funding.
5. Submit LSL return to DHS by 7th working day in July.

(B) Accounting for LSL

Hospitals and agencies for which this circular applies are required to record as revenue and DHS as a debtor, an amount equivalent to the net increase in the LSL provision. Where a net decrease occurs, the reverse is applicable and is treated as a reduction against the cumulative debtor balance. However, the reduction in the DHS debtor will only be to the extent the balance is run down to zero. Any additional amount below zero is not required to be recorded as a liability to DHS.

At the introduction of casemix DHS included a loading of 1.8% of salaries for LSL cash settlement purposes and this loading has continued to be applied in funding for subsequent award increases.

Salaries and Wages Defined

For the purpose of calculating the 1.8% of salary component in casemix, salaries and wages are defined as the remuneration for an employee's normal hours of work for the period calculated at the employee's ordinary time rate of pay as used in the AASB 119 calculation. Remuneration includes:

- All on-going performance payments an employee receives in the normal course of their duty, and
- Any recreation, sick and special leave.

Salaries and wages exclude any payments:

- For long service leave, or
- For travelling allowance, or
- For on-costs such as Workcover, superannuation, or
- Of a temporary nature of a reimbursement of expenditure incurred.

Salaries and Wages include both HSA and Non-HSA salaries and wages.

Additional Funding of Long Service Leave

During 2008/09 DHS is providing additional funding of 1% to hospitals for LSL. With the reinstatement of funding through the debtor mechanism, the additional funding previously recorded as grants should now be reversed and be treated as a reduction of the debtor balance owed by DHS.

The accounting entry for the reversal of the additional 1% already received and recorded as revenue:

DR	Grants from GG Sector Departments	XX
CR	Grants and Transfer Payments Receivable from Victorian Government Entities	XX

(For the reversal of cash received prior to the adoption of Circular 34/2008)

The accounting entry for the additional 1% after the adoption of Circular 34/2008:

DR	Cash	XX
CR	Grants and Transfer Payments Receivable from Victorian Government Entities	XX

(For the treatment of cash received after the adoption of Circular 34/2008)

Calculation and Accounting for LSL Debtor Balance

The LSL debtor to be raised is the difference between the AASB 119 calculated increase in the LSL liability for the year and the 1.8% of salaries and wages.

When the difference between the AASB 119 increase and the 1.8% of salaries and wages results in a net decrease in the LSL debtor, this decrease can only run down the cumulative debtor balance to zero and nothing below zero is to be recognised, that is, no DHS creditor balance required. A net increase in a subsequent period will result in a LSL debtor being raised.

Example A.1 – Increase in debtor

Hospital XYZ began the 200X financial year with an opening LSL leave liability of \$10 million and ended the year with LSL liability of \$13 million.

Year 200X

Opening liability balance		\$10M
Less Cash paid in LSL for the year		<u>\$ 3M</u>
Remaining liability before current year liability reinstatement		\$ 7M
AASB 119 calculated liability increase	(i)	<u>\$ 6M</u>
Closing liability balance		<u>\$13M</u>
Total Salaries and Wages Expense	(ii)	<u>\$222M</u>
1.8% of Salaries and Wages expense (1.8% of (ii))	(iii)	<u>\$ 4M</u>
DHS Debtor to be raised	(i) – (iii)	\$ 2M

The accounting entries would be presented as follows:

DR LSL Payable - Current/Non-current	\$ 3M
CR Cash on Hand and Other Bank Accounts	\$ 3M
DR LSL Expense	\$ 6M
CR LSL Payable - Current/Non-current	\$ 6M
DR Grants and Transfer Payments Receivable from Victorian Government Entities	\$ 2M
CR Grants from GG Sector Departments – Within Portfolio	\$ 2M

Note: The debtor established by the non-cash revenue recognition is run down in future years when the LSL provision for the year is less than the 1.8% funding or by the claiming of cash revenue to match a cash expense greater than the amount recognised in Health Service Agreement cash budgets.

Example A.2 – Decrease in debtor

In 200Y, Hospital XYZ had an opening LSL leave liability of \$13 million and ended the year with LSL liability of \$8 million.

Year 200Y

Opening liability balance		\$13M
Less Cash paid in LSL for the year		<u>\$ 8M</u>
Remaining liability before current year liability reinstatement		\$ 5M
AASB 119 calculated liability increase	(i)	<u>\$ 3M</u>
Closing liability balance		<u>\$8M</u>
Total Salaries and Wages Expense	(ii)	<u>\$222M</u>
1.8% of Salaries and Wages expense (1.8% of (ii))	(iii)	<u>\$ 4M</u>
DHS Debtor to be raised	(i) – (iii)	(\$ 1M)

The accounting entries would be presented as follows:

DR	LSL Payable - Current/Non-current	\$ 8M
CR	Cash on Hand and Other Bank Accounts	\$ 8M
DR	LSL expense	\$ 3M
CR	LSL Payable - Current/Non-current	\$ 3M
DR	Grants from GG Sector Departments – Within Portfolio	\$ 1M
CR	Grants and Transfer Payments Receivable from Victorian Government Entities	\$ 1M

If there was a reduction in the debtor balance of \$3M instead of \$1M, then the debtor balance of \$2M recognised in 200X will be run down in full by \$3M in 200Y. Where this occurs, agencies are required to set the debtor balance to zero and not recognise the creditor balance. Therefore, XYZ would be required to reduce the debtor balance by \$2M, not \$3M and recognise an expense of \$2M as a reduction in revenue.

DR	Grants from GG Sector Departments – Within Portfolio	\$ 2M
CR	Grants and Transfer Payments Receivable from Victorian Government Entities	\$ 2M

The following are recommended accounting entries along with the relevant Hospital Common Chart of Accounts (HCCOA) and Annual Financial Report (AFR) account codes, for entities to which this circular applies.

On recognition of non-cash services delivered:

Increase in debtor - arises when the increase in LSL provision for the year is more than the 1.8% of salaries included in casemix funding.

	HCCOA	AFR Account	AFR Account Description
DR	75600-75699	A23360	Grants and Transfer Payments Receivable from Victorian Government Entities
CR	56806-56899	A74500	Grants from GG Sector Departments – Within Portfolio

OR

Decrease in debtor - arises when the increase in LSL provision for the year is less than the 1.8% of salaries included in casemix funding.

	HCCOA	AFR Account	AFR Account Description
DR	56806-56899	A74500	Grants from GG Sector Departments – Within Portfolio
CR	75600-75699	A23360	Grants and Transfer Payments Receivable from Victorian Government Entities

Portability of Long Service Leave Relating to Transfer of Employee between Agencies to Which this Circular Applies

Where employees transfer between applicable agencies their entitlements will transfer with them. However the agency from which the employee is transferring is not required to pay the new agency the entitlement that would have been otherwise paid to the employee.

Any increase or decrease in LSL provisions due to transfer of staff will be reflected in the net movement of LSL provisions of each agency and therefore will give rise to a

corresponding increase or decrease in DHS debtor balance which will enable a claim for cash settlement if and when required.

DHS Information Requirements

DHS requires details of the liability calculation to establish reciprocal expense and creditor entries in the DHS financial statements. Details in the attached prescribed format are required by COB 7th working day of July. Late and/or incomplete and/or incorrect returns will **NOT** be accepted.

Data provided to DHS must be provided in the following pro-forma format (using the excel template below) with all information to enable processing of the DHS debtor balance:

Pro-forma for LSL Return		
<u>LSL Liability</u>		
Opening Balance		
Less Cash paid in LSL for the year		
		-
Calculated Increase/(Decrease) in Provision ¹	(i)	
Closing Balance²		-
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Salaries & Wages Paid	(ii)	
1.8% loading ³	(iii)	-
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<u>DHS Debtor</u>		
Opening Balance at 1 July 2008 (as confirmed by DHS last year)		-
Additional 1% payment		-
Debtor to be raised	(i) - (iii)	-
Other ⁴		
Closing Balance at 30 June 2009		-
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Split of DHS Debtor Balance		
Current		
Non-Current		
<p>¹ This is the aggregate of normal increase in entitlements, increase due to increase in award rates and changes due to bond/wage inflation adjustment.</p> <p>² Total LSL Provision at year end</p> <p>³ Details of the total salaries are required to compare the 1.8% loading in the casemix payment to cash settlements made during the year. The total salaries expense figure excludes FBT, LSL, superannuation, WorkCover, termination and departure package payments.</p> <p>⁴ Include any monies received for transferred employees' LSL entitlements.</p>		

The proposed data source for the movement calculation is the agency's payroll system data, to be made available to DHS on request.

The DHS contact for agencies to supply information by **COB 7th working day of July** is:

Manager, Financial Reporting
Level 6, 50 Lonsdale Street, Melbourne 3000
Phone: (03) 9096 8316 Fax: (03) 9096 9258
Email: reporting@dhs.vic.gov.au

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