

Paid Parental Leave Enhancements from 1 October 2022

Guidance to GSF Agencies regarding their estimation of a provision at 30 June 2023

AASB 119 *Employee Benefits* (AASB 119), requires a provision to be recognised for accumulating paid absences, when the employees render service. This will include accumulated paid parental leave entitlement.

AASB 119.11

When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term benefits expected to be paid in exchange for that service:

- (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.
- (b) As an expense unless another Australian Accounting Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, AASB 102 Inventories and AASB 116 Property, Plant and Equipment).

AASB119.13

An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:

- (a) In the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.
- (b) In the case of non-accumulating paid absences, when the absences occur.

Background to changes in parental leave entitlements

The Industrial Relations Secretary issued *Section 52(1) Determination No. 4 of 2022* under the *Government Sector Employment Act 2013*, changing conditions of employment. This applied from 1 October 2022 and included:

- Enhanced conditions of employment;
- Notice requirements; and
- Evidence requirements.

In summary, the determination expands access to 14 weeks of paid parental leave (plus a potential 2 weeks' bonus leave) to two parents, who have responsibility for care of a child (or children eg. from a multiple birth). Eligible employees have up to 24 months from the birth of a child (or children) by the employee, the employee's partner or the employee's legal surrogate, adoption of a child (or children) under 18 years of age or placement of a child (or children) under 18 years of age in permanent out-of-home care, to take the paid parental leave, where they have 40 weeks of continuous service (or will have by the time of the birth, adoption or placement), and there is the birth, adoption or placement of a child (or children) after 1 October 2022.

Premier's Memorandum M2022-08 and *GovConnect NSW Fact sheet – Parental Leave New Rules* Effective 1 October 2022 should also be referred to. The section 52(1) determination covers all public service employees. The Premier's Memorandum covers other public sector employees, and strongly encourages State-Owned Corporations (SOCs) to provide the same leave provisions to their employees. The GovConnect fact sheet contains provisions applying to public service employees in the *Crown Employees (Public Service Conditions of Employment) Reviewed Award 2009*. For

employees covered by other industrial instruments, the source documents should be read in conjunction with the relevant award or agreement and legislation.

Considerations for financial reporting

Under AASB 119, a provision for paid parental leave should be recognised at 30 June 2023, if material because these are accumulating paid absences.

The enhanced conditions mean that paid parental leave entitlements now:

- Accumulate for up to 24 months;
- Are available to a larger population of parents (i.e., two parents now have access to 14 weeks paid parental leave, rather than one); and
- Eligible employees (both parents) may be entitled to a further two weeks paid bonus parental leave (in certain circumstances)

It may be expected that most eligible parents will take the paid parental leave (and potential bonus leave) within the first twelve months of having the child/children. However, some parents may choose to take some or all of their entitlement in the second twelve months of the child being born or placed with them.

Some agencies may have a practice of paying out any unused balances of paid parental leave, when an employee terminates. In particular, Treasury understands this practice may be applied where an agency employs a significant number of staff on fixed term contracts. In this situation, there may be a constructive obligation, even though the entitlement does not vest with the employee under the relevant award. This will affect the calculation of estimated parental leave provision. However, the impact may not be material.

Appendix A – Guidance for estimating a provision for paid parental leave

Extract of Notice Requirements from s51(1) Determination No. 4 of 2022

Notice Requirements

(a) To access paid parental leave, including bonus parental leave, the employee must provide notice in accordance with the industrial instrument which applies to the employee, stating:

(i) The period of leave being sought, including the anticipated date of return to duty; and

(ii) That the employee will have responsibility for the care of their child for the period during which they are seeking the paid parental leave

The employee must notify the employer as soon as possible of any changes to their circumstances that will or is likely to affect their eligibility for paid parental leave prior, or throughout the period of payment.

Agencies should consider the industrial relations legislation, awards, current practices and historical experience applicable in their circumstances, as well as materiality, when using the following recommended steps to estimate their parental leave provision.

1. As at 30 June 2023, and based on the above Notice Requirements in the determination, identify the following populations of eligible employees:

- a. who have already commenced paid parental leave (14 weeks) or bonus parental leave (additional 2 weeks) from 1 October 2022; and/or
 - b. who have notified their intention to take paid parental leave and/or bonus parental leave between 1 October 2022 and up to 30 June 2025, and have advised anticipated dates (this may or may not have been formally approved in the relevant employee leave reporting system e.g. SAP).
2. Identify the number of weeks parental leave (or days) the employee is eligible for, i.e. 14 weeks or 16 weeks (based on Notice and Evidence requirements in the determination).
3. At 30 June 2023, deduct parental leave already taken, for those employees already on paid parental leave or bonus parental leave.
4. Calculate the estimated provision at 30 June 2023 based on employees' current rates of pay, applying oncosts and any anticipated salary or wage increases, covering the future period that the employee is expected to take the leave, in the 24 months to 30 June 2025.
5. Consider the completeness of populations in step 1, using historical experience of employees that only notify their intention a significant time after they become eligible.
6. Regardless of whether parental leave legally vests with eligible employees, where the agency has an existing or past practice of paying out the balance of unused parental leave to terminating employees, the provision should be calculated on the basis the parental leave is, in practice, fully vested.
7. Consider the likelihood that employees who are entitled to parental leave, will use that leave in future reporting periods. If material, adjust the provision to reflect the probability leave entitlements will be taken. For example, if management assess that a percentage of employees will terminate their employment before the full leave entitlement is used. However, note:
 - For many agencies, it is expected there may not be an adjustment, because management will assess that accumulated parental leave is highly likely to be taken.
 - If parental leave is paid out at termination, an adjustment should not be made.
8. Agencies should assess whether their existing policies and systems have been updated since 1 October 2022 to capture relevant data to identify all employees now eligible to access enhanced paid parental leave and bonus parental leave entitlements.

21 September 2023