1. Introduction
Management of Long Service Leave (LSL) costs at Monash has generally been a devolved activity. Over the years it has proven to be difficult for all areas to consistently manage this well as it usually needs each area to set aside cash funds to provide for the accruing costs that may be incurred in future periods.

In reality, LSL liabilities are generally increasing over time as periods of service increase, as salary scales increase as part of EB, and as the likelihood of staff becoming eligible increases over time. This makes budgeting for LSL costs difficult across the university.

Proper leave management principles need to be adopted going forward to ensure sound financial planning in line with Monash’s objective of proper financial management. Extensive discussions and consultation with faculty finance managers, resource managers and central division finance managers have been made in arriving at a common, consistent and fair approach for LSL management.

There is strong support for centralising severance pay (for fixed term staff) as it predominantly impacts short term projects and complicates the proper management of project funds. This has also been investigated to apply in a similar way to the approach for LSL – the costs involved are not significant when compared to LSL, however the principles and approach are similar.

A proposal to centralise LSL and severance pay was recommended to the Strategy and Resources Committee in June 2007. The recommendation to adopt a centralised approach was approved and the scheme will operate from January 2008.

2. The new approach to managing LSL and Severance pay
The new approach will provide for the actual annual costs in a consistent way. A new salary on-cost rate of 3.4% will be introduced to create an expense each pay period by employee. The 3.4% on-cost will cover both LSL and Severance pay. The oncost will apply to all tenured and fixed term staff - it will not apply to casual or sessional staff. The on-cost rate will be reviewed on an annual basis to ensure that the levy keeps in line with the accruing liability for the university.

The following points apply to LSL:
- The on-cost rate is based on the following factors; (a) the accruing LSL, (b) increase in LSL due to pay increases (c) the likelihood of some staff not working continuously for ten years, and (d) impacts of EB increases to existing LSL liabilities.
- All LSL related costs for the employee (LSL in service, LSL on termination, approved recognition of prior service) will be met against the on-cost rate above.
- Cost centres will be credited for any LSL taken by staff in service or on termination (this is similar to how maternity leave currently operates)
- This approach will apply consistently to employees in all departments across the university (faculties and support divisions).
- The LSL on-cost will be charged to employees on research grants.

The following points apply to Severance pay:
- Cost centres will be credited the full cost of the severance pay when the employee is terminated.
3. **Benefits of the proposed approach**

Some of the benefits of the new approach are:

- **Simplicity.** This process will eliminate the complexity of LSL and budgeting for all departments across the university (increasing complexity at Monash being a key concern).
- **Faculties and departments are no longer required to meet or budget for abnormal payouts.**
- **The accrual view of LSL and Severance pay in SAP Controlling (Co) and the cash view in SAP Funds Management (FM) will be identical.**
- **Better financial management and planning – can plan for salary costs with certainty.**
- **There are no financial issues involved in staff movements across departments.**
- **Proper costing of recurrent operations, research, projects and consultancies.**
- **Major severance pay costs will not impact cost centre and research grants.**

4. **Implementation**

The centralised approach is planned for 1 Jan 2008. Please take account of the new on-cost rate when costing salaries for 2008. The new on-cost rate will apply from Jan 2008, credits to cost centres for LSL on termination and in service will be automated – this is similar to how maternity leave currently operates.

The proposed operational process and transactions in SAP finance resulting from the new process is detailed below:

- A new on-cost GL account called “LSL and Severance pay” be created for all tenured and fixed term contract salaries – similar to other salary on-cost GL codes.
- The new on-cost rate to apply from the first pay in January 2008.
- When an employee is on LSL leave (LSL in service), the salary for this employee will continue to be costed to the cost centre (similar to what happens now). In addition, an automated SAP entry will credit the cost centre for LSL leave costs using a new GL account “LSL cost reimbursement”.
- When an employee with actual LSL terminates, the LSL payment will be charged to the relevant GL accounts of the employee (similar to what happens now). In addition, an identical figure plus related on-costs will be posted to the new GL account “LSL cost reimbursement”.
- When an employee who is due severance pay is terminated. The severance pay will be charged to the relevant GL accounts of the employee (similar to what happens now). In addition, a similar amount plus on-costs will automatically be posted to the new GL account “Severance pay reimbursement”.

5. **Transition issues**

Existing faculty and centrally held cash provisions for LSL will need to be consolidated centrally. This LSL liability amount for each faculty is reflected in SAP HR and will continue to be reflected in SAP.

The liability amount for each faculty as at 31 December 2007 will be centralised. Each faculty office cost centre will be debited the total cost of the outstanding LSL liability for all schools/department/centres within the faculty. The faculty office can in turn adjust the balances within the cost centres of the faculty as necessary (Finance will assist with this process as required). **This debit entry to centralise existing liabilities will be to the “carry forward” GL account and will not affect the overall “financial plan” for the faculty - current or future.**

A similar debit entry will be applied to other non faculty areas that carry their own LSL liability. These include commercial units and other non faculty academic centres.

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