Converting Annual leave to Weeks

This Factsheet illustrates the simple 5-Step procedure used to convert from most non-compliant Annual Leave accrual methods to *weeks*.

Please read this entire Factsheet BEFORE changing your Annual Leave accrual methods.

The Holidays Act S16(1) specifies *4 weeks Annual Leave*. **SmoothPay** encourages Users to become compliant with the requirements of the Act.

Intepretation and Encouragement

This Factsheet is the opinion and interpretation of **SmoothPay Limited** and is based on extensive research of the Holidays Act, Guide to Holidays and Leave, Department of Labour website and Factsheets and other reliable sources.

Annual leave should accrue in weeks as per the Holidays Act, unless a Labour Inspector has advised you otherwise, or all contracts are deemed to be less than 12 months duration, or the Employee is *Casual*, or your Employee is on *Parental* or other *Extended Leave Without Pay*.

By default, **SmoothPay** reports non-compliance by way of the *Issues and Setup Problems Report* which can be located in *Reports...Miscellaneous* and is also populated when an *update* is completed. Warnings are also displayed on the Employee's record screen.

Any payroll system that does not encourage it’s Clients to comply with the requirements of the Holidays Act, and doesn’t provide *weeks* as a method of accrual, is contributing to the massive non-compliance prevalent amongst Employers in New Zealand.

We still see, in systems we convert from, *Annual Leave* brought forward on the basis of it’s $value at the time it accrued. We also see poorly managed *Annual Leave* accruals of 160 hours where the Employee actually only works a few hours each week, contributing to major over-accrual of leave entitlements. Percentage accruals may seem fine, but they suffer greatly from changes in the Employee’s work pattern – discussed in more detail below.

For these reasons, and more, we encourage you to comply with the requirements of the Holidays Act.

Definitions

- ***Holidays Act*** refers to the Holidays Act 2003 and it’s amendments.
    - The Department of Labour oversees the implementation and interpretation of the Holidays Act, and Labour Inspectors have certain powers to make determinations under the Act.
    - Any questions that rest on interpretation of the Act should be directed to the **SmoothPay HelpDesk** (we will submit questions to the Labour Department on your behalf if you wish), then, if advised to, contact the Labour Department or a Labour Inspector.
- ***Casual*** employment in **SmoothPay** implies the Employee is “on-call” to fill in for absent staff or peak work periods.
    - Their contract terminates at the *end of each pay period* and they are entitled to be paid holiday leave as a *percentage of their earnings* (it may be inclusive).
    - This status may also be applied to contracts of less than 12 months (still Casual, but only if the Employee agrees in their Contract to be *paid leave each period*), or if the Employee’s work pattern is so irregular as to make 4 weeks indefinable (again, the Employee must agree in their Contract to be *paid out leave each pay period*).
- All other definitions are per the Holidays Act

Converting from a non-compliant method (in SmoothPay) to Annual Weeks

The following steps should ensure a relatively straight forward transition to *annual weeks*:

- **Prepare a memo** to affected Employees, advising that:

  In order to comply with the requirements of the Holidays Act 2003, all leave balances remaining from last anniversary will be converted to weeks based on your current work pattern, being the best of your current contract, last 4 weeks and last 52 weeks averages.

- **Produce 2 specific Leave Reports**:
  - ***Leave Liability Report*** (this provides a $value for *leave currently available*, as well as calculated to date)
  - ***Leave Settings Report*** (this is your *Worksheet*, and shows you who needs to have their *leave settings corrected*)
- **Create a Backup** in **SmoothPay -** if things don't go according to plan you can *Restore* from this *Backup*, undoing any changes you may have made.
- **Update the Employee record:**
  - Highlight the Employee and click on *Edit Employee.*
  - Click on *Holiday Setup*. Tick *Annual Weeks*. Click *OK*. Click *Save*.
  - **Repeat for each affected Employee.**
  - **DO NOT** make any other adjustments at this stage (correcting anniversary dates or adjusting the automatically calculated leave balance – see Step 6)
- **Reproduce 2 specific leave reports**:
  - ***Leave Liability Report*** (this provides a $value for *leave currently available*, as well as calculated to date). It should show $values that are reasonably close to the previously produced *Report*. In some cases, especially where *leave has accrued on a percentage basis*, the results may vary in value. Your only remedy in this case is to determine if the result needs to be manually resolved (see *Resolving Problems* below)
  - ***Leave Settings Report*** (this is your *Worksheet*, and shows you the *corrected, current settings*)
- **Corrections** should be applied as necessary (see *Resolving Problems* following).

Congratulations – you've taken a major step towards compliance, and you'll find that leave accrual and consumption is very straight forward from now on.

Resolving Problems

Incorrect balance:

You will need to manually check the number of weeks remaining is appropriate – refer to the following examples, and change the *balance of leave* remaining only if you really need to:

- Employee started less than 12 months ago, and has taken no leave:
  - Balance remaining will be zero.
- Employee started less than 12 months ago, and has taken some leave:
  - Determine what portion of a week was represented by the actual leave taken, and apply that in terms of weeks (eg 16 hours leave taken would normally represent .4 of a week. Balance remaining would be -0.4 weeks)
- For all other Employees, if the balance of leave remaining in weeks does not fairly reflect the Employee's correct balance, simply change the balance to a figure that does.
  - Simply add 4 weeks for each year of service since their last contract began, less any leave taken since (converted to an appropriate number of whole or part weeks) – this is the Employee's correct *leave remaining balance*.

BUT

My Employee works really irregular hours

Unless your Employee is deemed Casual (defined above), then they too are entitled to accrue leave in weeks.

A simple example might help:

> Joe works 20 hours each week for 12 months, and takes no Leave.
>
> His leave accrual method is 8%, and at the end of 12 months, Joe has accrued around 80 hours of Annual Leave. His work has been great and he's offered a full-time position at 40 hours per week.
>
> He then decides to take a 4 week holiday. The Act says he's entitled to 4 weeks Annual Leave, and each week is valued at the time it is taken, at the better of his current contract or his average over the last 12 months of service.
>
> The new 40 hour contract conditions win the race, so he's entitled to (effectively) 160 hours annual leave. But, he has only accrued 80 hours – that'll leave a deficit of 80 hours!
>
> Precisely, that's why accrual on a percentage basis is inappropriate.
>
> Firstly, if he was only paid 80 hours for his four weeks off, he would be paid a lot less than his actual entitlement under the Act.
>
> If his leave accrual had been set to *weeks*, then each week of leave paid would be worth the appropriate amount at the time taken – no problem, and compliant with the Act.

We've always used 160 annual hours

The above illustration should help your understanding of why hours just don't cut it.

Another example:

> Joe works 20 hours each week for 12 months, and takes no leave.
>
> His leave accrual method is 80 annual hours because he only works half a week, say 4 hours per day.
>
> Imagine for a moment that Joe's contract continues beyond 12 months and his conditions of employment don't change, and that the typical default of 160 hours annual accrual had been left on his record inadvertently. He'll end up being over-accruing leave.
>
> If his contract does change however, then you're faced with the same problem as the percentage accrual method used above.
>
> ***Weeks works.***

We've always used 20 annual days

Sorry, doesn't cut it either.

> Lets say Joe works 3 days each week, and accrues 12 days annually (you'll have a problem if you left it at 20 days – he'd end up over-accruing Annual Leave).
>
> He changes to full-time after 12 months, and his accrual is only 12 days – he's entitled to 4 weeks off at his current contract – a 20 day equivalent.
>
> ***Weeks works.***

Many, and varied, are the arguments we've heard and researched in depth.

Weeks works.

Converting from other non-compliant Payroll Systems

Accumulated $value to date (usually as a % of earnings

This method plainly fails the Holidays Act compliance test for a number of reasons.

It doesn't take into account changes in work pattern and the variation this causes in average weekly values. The Employee is unlikely to receive 8% of the unpaid portion of the accrued value remaining from last anniversary (your Employee will be underpaid in their *Final Pay*).

Use the following procedure to determine (with reasonable accuracy) a *leave balance remaining* from the Employee's last anniversary of entitlement:

- Make sure the Employee's S*tart* and *Anniversary Dates* are correct.
- Calculate the Employee's *gross liable **earnings*** since last anniversary, then calculate 8% (in **SmoothPay** you can use the *Pay Range Summary Report* for a single Employee for any date range).
- Calculate the average weekly value of liable earnings over the last 52 weeks (in **SmoothPay**, use the *Relevant Daily Pay Report*).
- Deduct the 8% in Step 2 from the Employee's accumulated $value, then divide by the average weekly value. This is the balance remaining from last anniversary, in *weeks*. Enter this in the Employee's *Holiday Setup screen* as the balance remaining.

Accumulated hours to date (usually as a % of hours paid, excluding overtime

This method of accrual also fails the Holidays Act compliance test.

Use the following procedure to determine (with reasonable accuracy) a leave balance remaining from the Employee's last anniversary of entitlement:

- Make sure the Employee's *Start* and *Anniversary Dates* are correct.
- Calculate the Employee's *gross liable **hours*** since last anniversary, then calculate 8% (in **SmoothPay** you can use the *Pay Range Summary Report* for a single Employee for any date range).
- Calculate the average weekly value of liable hours over the last 52 weeks (in **SmoothPay**, use the *Relevant Daily Pay Report*).
- Deduct the 8% in Step 2 from the Employee's accumulated hours, then divide by the average weekly hours. This is the balance remaining from last anniversary, in *weeks*. Enter this in the Employee's *Holiday Setup screen* as the balance remaining.

Further reference

- *Holidays Act 2003 and Amendments*: Available from stockists of Government legislation, and available online.
- Department of Labour and the www.ers.govt.nz website .
- Guide to Holidays and Leave available from www.cch.co.nz or by calling CCH on 0800 500 224.
- Our own *Guide to Holidays and Leave Factsheet* available on our website.

Feel free to contact our **HelpDesk** if you have any questions or suggestions for improving this Factsheet.

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