



Human Capital Management  
& Payroll Software/Services

## Navigating Long Service Leave in Australia

June | 2024

Leadership teams understand the importance of having a happy and well-compensated workforce. Few factors contribute to employee satisfaction as much as compensation and entitlements. Long service leave (LSL) is a significant entitlement for Australian employees, rewarding their loyalty and dedication. However, the seemingly straightforward concept of LSL can become a labyrinth of complexities, leading to unintended underpayment and a potential PR nightmare.

Let's explore the intricacies of LSL provisions across Australia and how these variations can cause concerns for even the most diligent payroll systems and teams.

## A Patchwork of Provisions.

Australia does not have a single, unified national scheme for Long Service Leave (LSL). Instead, it has a patchwork of legislation, with each state and territory having its own rules, leading to confusion.

**Qualifying Period:** The qualifying period for entitlement varies. Victoria and the ACT offer LSL after seven years of continuous service, while other states require ten years. This difference could create challenges for companies operating across national borders.

**Accrual Rates:** The rate at which LSL accrues does not follow a simple formula in all states (refer to the table below for details).

State/Territory	Qualifying Period	Accrual Rate per Year	Notes
New South Wales (NSW)	10 years	Pro-rata after 5 years; otherwise 0.866 weeks (1 week per 60 weeks)	
Victoria (VIC)	7 years	1.086 weeks (6.0667 weeks after 7 years)	
Queensland (QLD)	10 years	0.866 weeks (1 week per 60 weeks)	
South Australia (SA)	10 years	1.3 weeks (13 weeks after 10 years)	
Western Australia (WA)	10 years	0.866 weeks (1 week per 60 weeks)	
Tasmania (TAS)	10 years	1.04 weeks (8½ weeks after 10 years)	Calculated based on a 48-week working year
Australian Capital Territory (ACT)	7 years	Pro-rata after 5 years; otherwise 0.2 weeks (1.086 weeks after 7 years)	

Without being conversant with the accrual rules and knowing how to configure their payroll system to comply, organisations risk unintentional underpayment scenarios.

**Industrial Instruments:** Awards and registered agreements can override the baseline LSL provisions, potentially offering more generous entitlements or different qualifying periods. It's essential to be clear about the relevant awards or agreements that apply to your employees.

**Casual Employees:** Entitlements for casual employees can be particularly complex and vary by state. Some states offer pro-rata LSL based on hours worked, while others might exclude casuals

altogether. This complexity underscores the need for specialized knowledge in understanding and managing LSL entitlements for casual employees.

### A Real-World Example: The Pitfalls of Complexity

A major Australian brand recently faced a significant challenge related to Long Service Leave (LSL). The company experienced operational issues across multiple states due to differences in LSL accrual rates between jurisdictions. Their payroll system, which was set up for one state's rules, did not automatically adjust for employees in other states, resulting in unintentional underpayment of LSL entitlements. This case underscores the importance of understanding LSL complexities for companies operating across borders.



While the specific penalties imposed on the organisation for their LSL underpayment case remain confidential, the Fair Work Ombudsman (FWO) can impose substantial penalties for violating workplace laws. Here's a breakdown of the potential legal repercussions for companies caught underpaying LSL:

**Financial Penalties:** The FWO can levy significant fines on companies found to be underpaying LSL. The exact amount depends on the severity of the breach, the number of affected employees, and the total amount of underpayment. These penalties can reach hundreds of thousands of dollars, posing a significant financial burden.

**Compliance Orders:** The FWO can issue compliance orders in addition to financial penalties. These orders require companies to take specific actions to address the situation, such as reimbursing underpaid employees, updating payroll systems to ensure future compliance, and implementing educational programs to inform employees about their LSL entitlements.

### The Fallout of Underpayment.

The consequences of underpaying LSL extend far beyond financial penalties.

**Employee Morale:** Discovering they've been underpaid for their loyalty can demoralise employees. It can damage trust and potentially lead to increased turnover, which can be particularly damaging in a competitive job market.

**Reputational Damage:** Public exposure of LSL underpayment can be a severe reputational blow for a company. Negative media coverage can erode customer trust, damage brand loyalty, and hinder your ability to attract and retain top talent.

## Where Do We Go Wrong?

The differences in LSL rules can create challenges for payroll systems and HR departments, potentially leading to misunderstandings and technical issues resulting in underpayment. Here are some common reasons for these challenges:

**Misconfigured Systems:** Payroll systems set up for one state's LSL rules may not automatically adjust for employees in another state with different accrual rates or qualifying periods.

**Data Entry Errors:** Inaccurate employee data, especially regarding start dates, breaks in service, or changes in employment status (e.g., from casual to permanent), can disrupt LSL calculations that rely on continuous service.

**Lack of Awareness:** Company directors and HR personnel may be unaware of the specific LSL provisions affecting their employees, especially if they operate across state borders or have a diverse workforce with varying employment types. Payroll teams should be the subject matter experts for anything related to leave entitlements and calculations.

## Steering Clear of Trouble

Fortunately, there are steps you can take to avoid these pitfalls and ensure your company is fulfilling its LSL obligations.

**Employee Education:** It is important to maintain the knowledge and certifications of your payroll and HR personnel. Make sure to raise managers' awareness about the complexities of LSL, including the variations in accrual rates across states and entitlements for different employment types (casual, full-time, part-time).



**Seek Expert Advice:** Whenever there is any doubt, engage with employment lawyers or LSL specialists. They can help you understand your legal requirements in every state, interpret complicated awards and agreements, and make sure your company follows all the rules to ensure compliance.

**Invest in Capable Systems:** Upgrade your payroll system to process LSL variations correctly. Look for systems that can adapt to different jurisdictions, integrate seamlessly with HR data to ensure accurate calculations, and flag potential discrepancies. Remember that LSL must be configured as part of termination calculations where relevant, so systems must also be able to calculate terminations accurately.

**Regular Audits and Reviews:** Conduct regular audits of your payroll processes to identify and rectify any errors. This demonstrates a proactive approach to compliance and minimises the risk of underpayment. The Australian Payroll Association offers a comprehensive audit service to review and optimise Australian payroll operations.

**Open Communication:** Maintain open communication with your employees about their LSL entitlements. Consider providing resources or information sessions to ensure transparency and build trust. By following these steps, you can demonstrate your commitment to fair treatment of employees and avoid the legal and reputational risks associated with LSL underpayment.

## How Frontier Software Ensures Compliant Leave Calculations

**Rules Driven:** The ichris solution by Frontier Software allows clients to configure LSL leave accrual and payments according to the legislative requirements, awards or agreements that apply to each employee. Rules can be applied to groups of employees for consistent calculations across teams, departments, divisions, etc.

**Flexible and Responsive:** The configurable rules in ichris enable the automatic calculation and application of accrual and balance figures for every staff member, even when an employee moves from full-time to part-time or vice versa. It can also apply an average weekly hours inflation formula when determining long service leave accruals.

**Inbuilt Compliance:** These powerful features help ensure compliant leave calculations and the correct allocation and reporting of liabilities. It enables administrators to derive accurate leave termination calculations as an automated, standard function.

## Conclusion

Long Service Leave (LSL) is an important entitlement for Australian employees. By understanding the complexities of LSL provisions and taking proactive steps to ensure compliance, companies can fulfil their legal obligations, maintain a positive working environment, and build strong relationships with their employees.

Remember, a well-informed and well-compensated workforce is the foundation for a successful, sustainable, and reputable business.

“**Commitment to customer service is our number one priority.**”

Michael Howard, Founder