

The Holidays Act S16(1) specifies 4 weeks annual leave. This is our basis for encouraging SmoothPay users to become compliant with the requirements of the Act.

This HelpNote illustrates the simple 5-step procedure used to convert from any non-compliant annual leave accrual methods to weeks.

**Please read this entire HelpNote BEFORE changing your annual leave accrual methods.**

Your feedback is most welcome.

## Interpretation and encouragement

This document 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 fact sheets and other 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 staff member is on parental or other extended leave without pay.

We have advised all users in newsletters and email updates ever since weeks was made available as an accrual method, that this is the method that should be used. We now provide additional encouragement by way of the Issues and Setup Problems report, and warnings displayed on the employee 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 and is itself non-compliant. We seek to rectify that problem by encouraging compliance and providing compliant leave accrual and consumption methods that are easy to use and understand.

We still see today, 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 staff member 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 to annual weeks

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

- ❑ **Prepare a memo** to affected staff, 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)
  - ❑ **Edit employee**, annual leave setup. Click 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:**
    1. 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, esp 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)
    2. Leave Settings Report (this is your worksheet, and shows you the corrected, current settings)
  - ❑ **Corrections** should be applied as necessary (see Resolving problems below)

*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.**

## Further reference

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

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