

MYOB Essentials Payroll

Managing Annual Holidays in Weeks

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Introduction

The complexity of the Holidays Act is well understood, and issues of implementation are an ongoing challenge for businesses across New Zealand.

One of the most challenging areas of the Act to manage is keeping accurate balances of Annual Holidays entitlement when your employees have varied working patterns or change their working hours; this is because Annual Holiday entitlement is provided by the Act in weeks and most of us think about and manage our work and holidays in days and hours. To manage Annual Holidays for your employees you need to ensure you have an agreement with them on what a working week means (i.e. how many hours or days), this must genuinely reflect their working pattern at the time of any holidays taken.

It is important that where you use hours or days to determine Annual Holiday entitlements for your employees, you can demonstrate how those days or hours translate into the equivalent of 4 weeks Annual Holidays. It is also important that you adjust the balance for any change in your employees work pattern. Again, this entitlement to holidays needs to genuinely reflect their working pattern at the time of any Annual Holidays taken.

MYOB Essentials Payroll holds employees Annual Holidays in hours and there is a manual adjustment you need to make when your employee changes their working pattern. This document details the process for ensuring your employees work pattern is accurate and up to date.

Please note this information applies to all employers as any change in your employee's working hours or days needs to be carefully considered.

Disclaimer: This document provides guidance on how to manage leave entitlements within our product. We recommend that you read the MBIE document "*Holidays Act 2003: Guidance on annual holidays, domestic violence, leave, bereavement leave, alternative holidays, public holidays and sick leave*" to understand how to meet your obligations as an employer under the Holidays Act 2003. If you have further questions or are in doubt, it is best to seek legal advice to ensure you are meeting your obligations.

MBIE Website [Holiday Act 2003 - Leave Guidance](#)

Background

The Holidays Act 2003 provides all employees 4 weeks Annual Holidays after 12 months' continuous employment. Ensuring that your employees receive their full entitlement each year is an important part of your obligations under the Act.

It is common practice to manage entitlements as an accruing bucket of leave in days or hours, this means that your employees are earning a time portion of Annual Holidays when you pay them based on the agreed definition of a week you have with them. When employees take holidays, the balance is reduced by the number of hours or days they are taking. It is okay to manage Annual Holidays in this way so long as when an employee's work patterns change, the existing holiday entitlements that are held in days or hours are adjusted to reflect the employee's new work pattern, and you are able to demonstrate how they translate into the equivalent of 4 weeks Annual Holidays per year.

The example below might help to explain the calculation or further detail please refer to the example on page 32 of the MBIE Holidays Act guidance document:

[MBIE Guidance - Holidays Act 2003](#)

What is changing

MYOB Essentials Payroll uses the hours per week field to manage entitlements and calculate rates of pay for the payment of holidays. There is no change to this process and is important that this field is accurate and kept up to date.

Prior to this change, MYOB Essentials Payroll users needed to manually calculate and adjust balances held in hours when an employee's work pattern changed. The changes in this release aim to assist employers by calculating the new balance to be manually adjusted in the 'Estimated Leave accrued adjustment' field.

For example:

- Bob worked 20 hours per week and his annual leave entitlement was 80 hours (i.e. 4 weeks x 20 hours)
- At the time of a change in work hours he had 60 hours of his entitlement remaining. This can be calculated as 3 weeks (60 hrs / 20 hours = 3 weeks).
- Bobs work hours increase to 30 hours per week. To ensure that Bob still has 3 weeks of leave available Bobs entitled balance needs to be increased to 90 hours (3 weeks x 30 hours)
- If no adjustments were made Bob would lose 1 week of leave as 60 hours of leave would only equate to 2 weeks at 30 hours per week.
- The value held in the "Estimated Leave accrued adjustment" field would need to be manually overridden to 90 hours to ensure that Bob still has 3 weeks of leave available.

Preparing for the change

There are business processes and decisions outside of the product that you need to complete prior to implementing the product changes. If you are unclear of your obligations, you should seek guidance from MBIE or your employment relations advisor.

1. You need to ensure that what genuinely represents a working week for your employees is very clear and/or agreed with them and that your employment agreements state this. This will be loaded to the system to provide holiday entitlement and demonstration of the balance in weeks. For more information on determining and agreeing with your employees whether holidays will be taken in days or hours, see the worked example on page 34 of the MBIE guidance. [MBIE Guidance - Holidays Act 2003](#)
2. Before implementing these changes, you need to consider how you have previously treated Annual Holiday balances when your employee's working patterns have changed. If you have not made a manual adjustment to their balance at the time, it is possible that their current balances are higher or lower than they should be. You can use the detailed leave report to identify if and when an employee's Annual Leave entitlements and values have been changed in the past. MBIE's current guidance is that if your employees' hours or days have increased, you are required to recalculate to increase the balance but where the hours or days have decreased, you need to be cautious about decreasing the balance. As stated in the MBIE Guidance:
"If the employee's hours decrease, recalculating will be compliant with the Act, but could give rise to other issues, such as a claim for breach of contract, if the

employer has not been recalculating previously. In this situation, it is recommended that legal advice is sought.”

3. If you have not manually calculated balances in the past as described in this document, you will need to retrospectively review and adjust balances. You should consider whether the following scenarios may have occurred for any employees:
 - An employees’ work pattern may have changed (e.g. hours worked increased or decreased) and no changes were made to “Estimated Leave accrued adjustment” field at the time. You may be able to identify this by reporting on Actual hours worked and comparing it to the Leave entitlements over the same period. You will need to then manually calculate what they would have been entitled to over that period and adjust the balance in the “Estimated Leave accrued adjustment” field.
 - An employees’ work pattern may have changed and while the hours per week field was updated, no changes were made to the employees “Estimated Leave accrued adjustment” field. You can use the Leave detailed report to identify these changes and in this case, they would have begun to accrue the correct entitlement from the change date so the adjustment will apply to the outstanding balance they had at the time.

We understand that this can be a complex process to work through and we recommend that you seek advice if you are unsure of the accuracy of your employees’ entitlements.

For your employees with varied hours or days of work, it is also important to consider the impact on payment of leave depending on an agreement of hours or days as detailed in page 34 of the MBIE guidance and to make your employees aware that the payment for less than a week of holidays might not match exactly what they would have worked that day.

After the change

You need to ensure that the hours per week field used to manage entitlements and calculate rates of pay for the payment of holidays is accurate and kept up to date. For example, when an employee moves from part time to full time hours or days or vice versa, you should review this setting to ensure it is updated with the new hours or days. We also recommend regularly reviewing the employee’s actual hours relative to the Agreed Definition of a Week to ensure it is still a true representation of the agreed week. Where variances occur, this may prompt discussion and further agreement with your employee and potentially an update to the Agreed Definition of a Week and values stored in the software.

Software Changes

After this update, if you change an employee's hours, MYOB Essentials Payroll will prompt you to update the employee's leave balances on the **Leave** tab of their employee record. Here's an example:

 You've updated this employee's hours per week. Next, go to the [Leave](#) tab to update their annual leave entitlements and balances. [Learn more](#)

Then, on the **Leave** tab you're provided further prompts to help make your changes.

 This employee should have **0.21 weeks** of accrued leave, which equals **8.20 hours** based on their weekly hours. To correct this, enter **2.05 hours** into the **Estimated leave accrued adjustment** field. [Tell me why](#)

For all the details on the effect of changing work patterns, see our help topic [Updating leave balances](#).

Also, this update introduces the ability to display an employee's leave balances in **Hours, Days or Weeks**.

Current balances show help

Display current balances in:

- Hours
- Days
- Weeks