

Leave Liabilities: Not an Operational Issue, but a Strategic One

Why Leave Provisions Demand Executive Attention

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The accounting treatment of accumulated leave depends on the financial reporting framework applicable to the organisation. Entities applying full IFRS Accounting Standards account for accumulating paid absences under IAS 19, *Employee Benefits*, particularly paragraphs 13–17. Qualifying entities applying the IFRS for SMEs Accounting Standard refer to Section 28, *Employee Benefits*, while South African public-sector entities applying Standards of GRAP follow GRAP 25, *Employee Benefits*. These accounting requirements should be considered alongside the Basic Conditions of Employment Act and the organisation's employment contracts, collective agreements and leave policies, which determine the underlying legal and contractual leave entitlements.

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Introduction

For many organisations, one of the largest people-related liabilities appearing on the balance sheet is the provision for accumulated employee leave. It often grows quietly, receiving limited attention until auditors raise concerns, cash-flow pressures emerge, or a restructuring results in significant leave payments.

Technically, accumulated leave is reflected as an employee-benefit liability in the statement of financial position, while movements in the liability affect employment costs in the income statement. Regardless of terminology, the underlying message is clear: untaken leave represents a real financial obligation.

A large leave provision is not simply an accounting issue. It can indicate weaknesses in workforce planning, management discipline, employee wellbeing, operational resilience and organisational governance. It may also conceal a significant future cash-flow requirement.

For this reason, responsibility for managing leave cannot rest solely with Human Resources or payroll. It requires coordinated oversight from HR, Finance, operational leaders, line managers and executive management.

Why does unused leave create a financial liability?

Employees earn annual leave as they render services to an organisation. When that leave can be carried forward and used in a future period, the organisation assumes an obligation.

IAS 19, *Employee Benefits*, requires an organisation to recognise the expected cost of accumulating paid absences as employees provide the services that increase their entitlement. The liability is measured according to the additional amount the organisation expects to pay because of unused leave accumulated at the reporting date. This accounting obligation can exist even where the leave entitlement is non-vesting and would not necessarily be paid in cash when the employee leaves. The likelihood of employees leaving before using such leave is then considered in measuring the liability. ([IFRS Foundation: IAS 19](#))



In simple terms, an employee works today, earns a right to paid leave and may take that leave later. The employer has therefore received the employee's services but has not yet settled the entire associated benefit obligation.

The calculation may appear straightforward:

Accumulated eligible leave days × applicable daily remuneration = estimated leave liability

In practice, however, the calculation can be more complex. Organisations must consider their leave policies, employment contracts, salary increases, different employee categories, the components included in remuneration, the probability that leave will be used, the timing of expected settlement and the treatment of leave on termination.

As salaries increase, the value of accumulated leave may also increase. Leave earned when an employee's salary was lower could ultimately be taken or paid at a higher remuneration rate. A balance that appears manageable today may therefore become considerably more expensive over time.

The South African employment-law context

In South Africa, the Basic Conditions of Employment Act provides that an employer must generally grant an employee at least 21 consecutive days of annual leave on full remuneration for each annual leave cycle. By agreement, this can be calculated as one day of leave for every 17 days worked, or one hour for every 17 hours worked.

The Act also states that annual leave must be granted no later than six months after the end of the relevant leave cycle. An employer may not ordinarily pay an employee instead of granting statutory annual leave, except when the employment relationship terminates. On termination, qualifying outstanding annual leave must be paid in accordance with the Act. ([Department of Employment and Labour: Basic Conditions of Employment Act](#))

These requirements reinforce an important principle: annual leave is intended to provide employees with rest and recovery. It should not be treated merely as a financial benefit that employees can accumulate indefinitely or routinely exchange for cash.

Organisations must distinguish carefully between statutory leave and additional contractual leave. Employment contracts, collective agreements and organisational policies may grant employees benefits that exceed the statutory minimum. Different conditions regarding accumulation, carry-over, expiry and payment may apply to these additional benefits.

Any policy dealing with the forfeiture or expiry of leave should therefore be legally reviewed, clearly communicated and consistently implemented. An organisation should not assume that an accounting entry, an automated system rule or a general "use it or lose it" statement automatically removes an employee's underlying entitlement.

Why do leave provisions become so large?

A growing leave provision is rarely caused by a single issue. It usually results from several organisational practices.

1. A culture that rewards constant availability

In some organisations, employees who do not take leave are regarded as particularly dedicated. Senior employees may believe that the business cannot function without them, while junior employees may fear that taking leave will be interpreted as a lack of commitment.

When employees are implicitly rewarded for remaining permanently available, leave balances accumulate and exhaustion becomes normalised.

2. Operational understaffing

Employees may be unable to take leave because teams lack sufficient capacity. Requests are postponed because of deadlines, vacancies, peak periods or a lack of people who can perform essential duties.

This transforms an operational-capacity problem into both a financial liability and a wellbeing risk.

3. Weak management accountability

Leave is frequently viewed as an administrative matter between the employee, HR and payroll. Line managers may approve repeated postponements without considering the financial effect.

If managers are accountable for revenue, expenses and headcount but not for leave accumulation, the provision can grow without meaningful intervention.

4. Poor workforce and succession planning

Where knowledge is concentrated in one person, that employee may be unable or unwilling to take extended leave. High leave balances can therefore reveal key-person dependencies and inadequate succession planning.

An organisation that cannot operate when one employee is absent has a business-continuity problem—not simply a leave problem.

5. Policy and system weaknesses

Leave rules may be unclear, inconsistent or poorly configured in the human-resource information system. Common problems include duplicate balances, incorrect accrual rates, inaccurate service dates, misclassified leave, manual adjustments and differences between payroll and HR records.

Small data errors multiplied across a large workforce can materially distort the liability.

6. Salary and workforce growth

Even where the average number of accumulated days remains unchanged, the financial provision may increase because salaries have risen, the workforce has expanded or the employee mix has shifted towards more highly paid roles.

The organisation must therefore analyse both the number of outstanding days and the monetary value attached to those days.

The wider business risks

The most visible consequence of accumulated leave is financial, but the wider risks can be more serious.

A large liability can affect reported profitability, working-capital planning, budgeting and financial ratios. It can also create a cash-flow shock when employees resign, retire, are retrenched or transfer as part of a business transaction.

During a merger, acquisition or due-diligence exercise, substantial leave balances may affect the valuation of the business or become a matter for negotiation between the parties. The buyer will want to understand whether the liability is complete, accurate and recoverable through appropriate purchase-price adjustments.

There is also an audit and control risk. Unsupported balances, inconsistent policy application and unreconciled differences between HR, payroll and finance systems can result in audit findings or financial-statement adjustments.

From a human-capital perspective, excessive accumulated leave may signal fatigue, burnout and inadequate recovery. Employees who continually postpone leave may initially appear productive, but sustained overwork can lead to declining judgement, disengagement, errors, absenteeism and turnover.

Fraud and misconduct risk should also be considered. Requiring employees in sensitive financial, procurement or control positions to take meaningful periods of uninterrupted leave can enable organisations to identify irregularities that might otherwise remain concealed by continuous individual control over a process.

Leave provision should be treated as a management indicator

Executives should not review only the total value of the leave provision. A single aggregate number provides limited insight and may hide concentrations of risk.

A more useful dashboard should include:

- Total leave liability and its movement over time.
- Outstanding leave days by business unit and employee category.
- Employees with balances exceeding defined thresholds.
- Leave provision as a percentage of payroll costs.
- Average leave taken compared with average leave accrued.
- The value of leave held by executives and critical-skill employees.
- Repeatedly postponed or declined leave requests.
- Employees who have not taken a meaningful period of consecutive leave.
- Differences between HR, payroll and finance records.
- Forecast leave payments arising from planned resignations, retirements or restructuring.

The data should be segmented by division, cost centre, level, location and manager. This allows the organisation to identify whether the problem is systemic or concentrated in particular areas.

A practical strategy for reducing the liability

Reducing the leave provision requires more than sending employees a reminder to take leave. A sustainable response should address policy, behaviour, operational capacity and governance.

Establish clear governance

The organisation should determine who owns the leave liability. Finance may be responsible for accounting accuracy, HR for policy and system integrity, and line managers for enabling employees to take leave. Executive management should oversee the overall risk and intervene where operational practices prevent compliance.

A formal leave-governance framework should specify responsibilities, reporting requirements, escalation thresholds and approval authorities.

Reconcile the underlying data

Before implementing reduction measures, HR, payroll and Finance should verify the accuracy of the balances. Employment contracts, collective agreements and leave policies must be compared with system configurations.

Suspicious balances, manual adjustments and negative leave records should be investigated. Reconciliations should then be performed regularly rather than only at year-end.

Segment the liability

Not all leave balances present the same risk. Organisations should differentiate between statutory leave, contractual leave, current-cycle leave, carried-forward leave and balances that are disputed or potentially subject to expiry.

The organisation should also identify high-value balances attached to senior or long-serving employees, as these may represent the greatest financial exposure.

Introduce proactive leave planning

Employees and managers should agree annual leave plans at the start of each cycle. Leave planning should be integrated with project schedules, operational peaks, succession arrangements and workforce-capacity discussions.

Where employees have excessive balances, a structured reduction plan can be agreed. This may involve taking leave in manageable periods over several months rather than creating operational disruption through a single prolonged absence.

Hold managers accountable

Leave indicators should form part of monthly management reporting. Managers whose teams continually accumulate excessive leave should be required to explain the causes and implement corrective action.

Accountability is especially important when leave requests are repeatedly declined. If operational requirements prevent employees from taking leave, the organisation must resolve the underlying capacity problem rather than transferring the financial and wellbeing consequences to employees.

Review policy design

The leave policy should clearly address accrual, carry-over, expiry, approval, cancellation, termination and the treatment of additional contractual leave. It should also explain the respective responsibilities of employees and managers.

Policies should be aligned with employment contracts, collective agreements, legislation and system rules. Legal advice should be obtained before changing existing entitlements or introducing forfeiture provisions.

Address key-person dependency

Employees with unusually high leave balances may be the only people capable of performing critical tasks. Cross-training, documented procedures, delegation and succession planning can make it possible for them to take leave while improving operational resilience.

Promote genuine recovery

Leave should not simply be scheduled to reduce an accounting number. Employees should be encouraged to disconnect from work. An employee who remains available for calls, emails and approvals throughout a holiday has not received the full restorative benefit of leave.

Senior leaders have a particularly important role in modelling appropriate behaviour. Employees are unlikely to take leave confidently when executives remain permanently connected or celebrate excessive working hours.

Avoid short-term solutions that create new risks

Organisations may be tempted to eliminate large balances through forced leave, blanket forfeiture or once-off cash payments. These measures can create legal, employee-relations and affordability concerns if they are implemented without proper analysis.

Cash payments may reduce the recorded liability but create an immediate cash-flow requirement and may be inconsistent with restrictions on paying employees instead of granting statutory leave during employment.

Likewise, automatically expiring leave balances without considering the applicable legislation, contracts, policies and reasons the leave was not taken may expose the organisation to disputes.

The objective should be to reduce the liability lawfully and sustainably while preserving the purpose of annual leave.



A shared financial and human-capital responsibility

The leave provision sits at the intersection of finance, reward, employment law, workforce planning and employee wellbeing. When it becomes excessive, it tells an important story about how the organisation is being managed.

It may indicate that teams are understaffed, managers are not planning effectively, critical knowledge is concentrated in too few people, employees do not feel able to disconnect or systems do not produce reliable information.

The solution is not simply to adjust the accounting calculation at year-end. Organisations need reliable data, legally sound policies, clear accountability, proactive leave planning and a culture that recognises rest as an essential component of sustainable performance.

Boards and executive committees should therefore ask a straightforward question:

Is our leave provision merely being accounted for—or is it being actively managed?

The answer has implications not only for the balance sheet, but also for cash flow, governance, organisational resilience and the long-term wellbeing of the workforce.

Estimated South African leave liability by sector

Industry sector	Base unused leave assumption	Estimated base liability	Plausible range	Base liability as % of annual payroll	Base liability per employee
Mining and quarrying	12 days	R9.8bn	R6.6bn–R13.1bn	4.6%	R20,800
Manufacturing	10 days	R13.5bn	R8.1bn–R18.9bn	3.8%	R10,700
Electricity, gas and water	14 days	R2.5bn	R1.8bn–R3.2bn	5.4%	R37,700
Construction	8 days	R5.1bn	R2.5bn–R7.6bn	3.1%	R8,700
Wholesale, retail, motor trade and hospitality	8 days	R16.3bn	R8.1bn–R24.4bn	3.1%	R6,900
Transport, storage and communication	10 days	R7.0bn	R4.9bn–R9.8bn	3.8%	R14,900
Financial, real estate and business services	12 days	R45.5bn	R30.4bn–R68.3bn	4.6%	R18,400
Community, social and personal services	15 days	R70.1bn	R46.8bn–R93.5bn	5.8%	R25,000
Estimated total	Approximately 12 days	R169.8bn	R109.1bn–R238.7bn	4.6%	Approximately R16,200

The central estimate suggests that accumulated leave across South Africa's formal non-agricultural sector could represent approximately **R170 billion**, with a reasonable estimated range of **R109 billion to R239 billion**.

How the estimate was calculated

The calculation uses Stats SA's March 2026 Quarterly Employment Statistics. Stats SA reported:

- 10.468 million employees in the formal non-agricultural sector; and
- R921.5 billion in basic salaries and wages for the March 2026 quarter.

$$\text{Estimated liability} = \text{Annual basic payroll} \times \frac{\text{average accumulated leave days}}{260 \text{ working days}}$$

This quarterly wage bill was annualised to approximately R3.69 trillion. The [Stats SA QES report](#) provides employment and wage data for eight broad industry groupings.

The low, base and high estimates reflect different assumed leave balances by sector. These assumptions are not reported by Stats SA; they are modelling assumptions based on factors such as workforce tenure, operational constraints, shift patterns, employee turnover, skills scarcity and the tendency for professional or public-service employees to accumulate leave.

Why the sectors differ

Community, social and personal services

This is expected to carry the largest absolute liability because it includes government entities and a substantial concentration of education, healthcare and professional public-service employees. It has the largest sectoral wage bill and often includes long-serving employees with comparatively stable employment.

The base estimate of approximately R70 billion should be treated cautiously because public-service leave rules, capped leave, historical leave arrangements and payment conditions can differ considerably from private-sector practices.

Financial and business services

This sector is likely to have the second-largest liability. It includes financial services, insurance, real estate, professional services and a range of outsourced business activities.

Higher remuneration levels, key-person dependencies and a culture of constant availability can increase the value of accumulated leave. However, the sector is diverse, and the position of a bank, consulting firm or insurer may differ materially from that of a labour-broking or outsourced-services business.

Trade and manufacturing

These sectors have large workforces, making their aggregate liabilities substantial even though their estimated liability per employee is lower.

Higher employee turnover, more structured shutdown periods and relatively lower average remuneration can limit accumulated balances. Conversely, chronic understaffing, shift requirements and production demands may prevent employees from taking leave.

Electricity and utilities

The absolute liability is relatively small because the sector employs fewer people, but the estimated liability per employee is the highest in the model. This reflects higher average remuneration and an assumed concentration of specialised, technical and long-serving employees.

Mining and transport

Both sectors may experience operational constraints that make leave scheduling difficult. Critical skills, continuous operations and shift requirements can result in accumulated leave. Mining's higher average remuneration increases the financial value of each outstanding day.

How organisations can use these benchmarks

An organisation can compare its recorded liability against three practical measures:

1. Leave liability as a percentage of annual basic payroll

- Below 3%: generally controlled, subject to policy and workforce context.
- 3%–5%: moderate exposure requiring regular monitoring.
- 5%–7%: elevated exposure.
- Above 7%: potentially significant financial, capacity and wellbeing risk.

2. Average accumulated days per employee

- Fewer than 8 days: relatively low.
- 8–12 days: moderate.
- 13–18 days: elevated.
- More than 18 days: high, particularly if concentrated among senior or critical employees.

3. Liability per employee

$$\text{Liability per employee} = \frac{\text{total recognised leave liability}}{\text{number of employees}}$$

This should be compared with the relevant sector estimate, but differences in employee mix and remuneration levels must be considered.

Important limitations

These estimates represent a gross benchmark rather than the exact liability that should be recognised under IAS 19.

IAS 19 requires organisations to measure the expected additional cost arising from accumulated paid absences. The accounting calculation may therefore consider expected utilisation, employee turnover, non-vesting leave, salary increases and the organisation's contractual obligations. ([IFRS Foundation: IAS 19](#))

The estimates also:

- Use basic salaries and wages rather than each organisation's complete definition of leave remuneration.
- Do not include employer contributions or other remuneration components.
- Do not distinguish between statutory and additional contractual leave.
- Include both full-time and part-time employees.
- Exclude agriculture, domestic employment and informal-sector employment.
- Do not account for organisation-specific forfeiture, carry-over or leave-cap rules.
- May overstate liability where leave expires lawfully or employees are unlikely to use non-vesting leave.

- May understate liability where leave pay includes allowances, variable remuneration or anticipated salary increases.

Accordingly, the figures are most useful as a **market-sizing and benchmarking model**. They should not replace an organisation-specific IAS 19 calculation, payroll reconciliation or legal review of leave entitlements.

Sources

1. **IFRS Foundation. IAS 19: Employee Benefits**

Relevant provisions: paragraphs 13–17, covering the recognition and measurement of accumulating paid absences. [IAS 19 – Employee Benefits](#)

2. **Republic of South Africa. Basic Conditions of Employment Act 75 of 1997**

Relevant provisions:

- Section 20: Annual-leave entitlement, timing, accumulation and payment restrictions.
- Section 21: Calculation and payment of annual-leave pay.
- Section 35: Calculation of remuneration.
- Section 40: Payment for outstanding leave upon termination.

3. **Statistics South Africa's Quarterly Employment Statistics data**

Leave liabilities demand strategic attention.

The true cost extends beyond the balance sheet — affecting workforce planning, employee wellbeing and organisational resilience.

Continue the conversation.



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