

Fact Sheet:

The Importance of Employment Contracts

HR Dynamics Guide for Employers

Why do Employment Contracts matter?

Let's face it: contracts aren't exactly the most thrilling part of running a business. But skipping the fine print is like trying to build a house without a foundation - risky, messy, and bound to collapse! Properly drafted contracts protect your business, keep you compliant, and stop Bob in accounting from claiming he should be the CEO (*again*).

Here's why nailing your contracts is essential (*and how they'll save you headaches*):

What are the Key Benefits of Employment Contracts?

-  **Clarity & Setting Expectations**
Employment contracts specify details such as pay, hours, entitlements, and work expectations, helping to set clear expectations and prevent misunderstandings between employers and employees.
-  **Fair Work Compliance**
Written agreements help ensure your organisation meets the requirements of the Fair Work Act, which is especially important during disputes or inspections. Employment contracts cover essential clauses such as termination notice periods, casual loading rates, employee classifications, what is included in loaded rates, leave provisions, and alignment with the applicable Award – reducing the risk of underpayment and breaches.

Q&A: Pay Rates & Classifications



How do I determine the correct Award for my employees?

So, this is not a pick-and-choose situation. There are Industry Awards and Occupational Awards. The coverage of the Award is determined in the coverage clause and it dictates which Award you need to use. It can get a bit technical here, so if you are unsure, contact Fair Work or HR Dynamics to help you get this right.



How do I determine the correct Award for my employees?

Award classifications specify the level of work based on skills, responsibilities and experience. They are important because:

Determine Pay Rates: Classifications correspond to particular pay rates outlined in the award.

Ensure Fairness: Accurate classification ensures employees are compensated correctly for their roles.

Maintain Compliance: Misclassifying employees can result in underpayment and legal complications.

Example Scenario: Nathan employs Sam as a receptionist and, based on professional advice, applies the Clerks – Private Sector Award. Using the role's responsibilities and experience requirements, he classifies the position as Level 2, which sets the minimum pay rate. Nathan may pay above this rate, but the classification remains the same.



Risks of Non-Compliance

Where we see risks:

- ✗ Not classifying a role correctly
- ✗ Paying a flat hourly rate and not doing the calculations correctly
- ✗ Not putting the classification level in the contract
- ✗ Thinking because you pay more than Bob down the road does you will be fine.

The Fair Work Ombudsman actively monitors compliance, and employers who are found in breach may have to pay back wages, penalties, and potentially face fines.

Annualised Salaries

Remember back in the good old days when you could just pay staff a set salary? Oh boy, have things changed here. Different Awards have different requirements for annualised salaries.

So if you have salaries:

- Check what the Award requirements are around salaries
 - Make sure your employment contract is clear about what the salary covers
 - Maintain good record keeping - yes, that is right, time sheets are necessary even for high-earning salary holders.
 - Do regular checks to ensure that the salary has them better off than the Award requirements (*this includes all penalties, and overtime*)
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Part-Time Employment

Most Awards specify that you need to clarify in the employment contract the part-time hours. This includes the days of the week, start and finish times.

We hear you, this can be tricky, business conditions change – but it is what it is.

You can add into the employment that there is an opportunity to have flexibility in the agreed hours, but it needs to be by mutual agreement...and in writing.



Additional Clauses to Consider

So now let's talk about some other clauses that you may or may not want to include in your employment contracts:

- **Location & Travel** - Important if you have multiple work sites
- **Breaks** - Not giving breaks attracts overtime, is it your choice or the employees' as to when they take their break?
- **Timesheets** - Accurate time recording is mandatory
- **Qualifying Period** - NO, IT IS NOT 3 MONTHS
- **Leave** - Do you have shutdown periods or times when leave won't be approved?
- **Termination** - Be careful here, if you put more than the Fair Work requirement for termination period, you, as the employer, will be held to it, but the employee gets to revert back to Fair Work requirements
- **Right to Disengage Services** - This is a technical one if your client won't allow someone on-site. Get some professional assistance to draft this clause.
- **Licenses, Qualifications, or Tickets** - If it is a requirement for the employee to hold these, then state it here, or forever hold your peace
- **Restraint of Trade** - We can use lots of scary words in this clause, but a word of warning, they can be hard to enforce. If this is a big-ticket item for you, then make sure you get some professional advice.
- **Secondary Employment** - This can be a big issue if fatigue management is an issue or flexibility of shifts is required
- **Confidentiality** - Shhh client information, work information, what Peter had for lunch, confidential is confidential
- **Intellectual Property** - Again, one we can get fancy on, if this is important, seek advice on getting the wording right

High Risk Clauses to Get It Right

- **Disclosing Pre-Existing Injuries** - So, spraining your finger in second grade is probably not a big deal, but having a back injury in a job that involves manual handling is something that, as an employer, you need to know about.
- **Casual Clauses** - There are some very important and specific clauses you need when it comes to casual contracts. These cover off on no obligation for ongoing work, casual loading and the right to convert to permanent. Casuals with no or poorly worded contracts are a high risk in your business.
- **Drugs & Alcohol** - So, if someone comes to work under the influence, you think you can just automatically terminate their employment? No, think again, this is a minefield with lots of juicy case law.

Whatever clauses you select for your employment contracts, make sure they are fit for purpose. This may mean your contracts are comprehensive, written in plain English or a bit on the fun cheeky side.

Most importantly, they need to be legally compliant. We all love AI, but there is a time and a place and drafting an employment contract is super important. You are confirming in writing a contract worth tens of thousands of dollars with an employee, over the years, it may be hundreds of thousands of dollars, so the best advice we can give is spend some time getting your employment contract basics right. Remember, just like flying, it is the take off and landing that are the danger areas, your contract is your seat belt – don't go cheap, go for quality.

Why HR Dynamics How We Can Help

We work with organisations across a range of industries, providing clear, compliant employment contracts that are practical, fit for purpose, and written in plain English.

We draft clear, compliant employment contracts tailored to your workplace, industry, and risk profile. We focus on practical wording and high-risk clauses so your contracts are fit for purpose.

Let's talk about getting your contracts right!

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