

NT Build - portable long service leave

Annual Report 2006-2007

Objective of the report

The objective of the report is to satisfy the requirements of section 68 of the *Construction Industry Long Service Leave and Benefits Act* by presenting the Minister responsible for NT Build with a summary of the activities of the Board during the 2006-2007 financial year.

It also provides the Northern Territory Legislative Assembly, government agencies, stakeholders and other interested parties with an account of the performance of NT Build during the year in relation to the activities, achievements and operations of the portable construction industry long service leave scheme.

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Letter of transmission

The Hon. Paul Henderson MLA
Minister for Public Employment
Legislative Assembly of the Northern Territory
Darwin NT 0800

Dear Minister

RE: NT BUILD ANNUAL REPORT 2006-2007

On behalf of the NT Build Board, I am pleased to present you with the second NT Build Annual Report, for the year ending 30 June 2007.

The report details the activities and achievements of NT Build during its second year of operation and has been prepared in accordance with the provisions of Section 68 of the *Construction Industry Long Service Leave and Benefits Act* (the CILSLB Act).

I advise that, to the best of my knowledge and belief, the system of internal control within NT Build provides reasonable assurance that:

- proper accounts and records of the Board's transactions and financial affairs are kept and the financial statements included in this report have been prepared from proper accounts and records and is in accordance with the CILSLB Act;
- there are adequate controls over the incurring of the Board's liabilities ;
- all payments out of the Board's money are correctly made and properly authorised;
- adequate control is maintained over the Board's property and property in the Board's custody, control and management;
- there is no indication of fraud, malpractice, major breach of legislation or delegation, or major error in or omission from the accounts and records;
- all employment matters have been handled in accordance with *Public Sector Employment and Management Act* and the CILSLB Act, as appropriate.

As required by section 69 of the CILSLB Act, you are advised that the Auditor-General has audited NT Build's financial statements for the year ending 30 June 2007 and his comments are contained in this report.

May I also draw your attention to section 68(5) of the CILSLB Act, which requires that a copy of this Report be tabled in the Legislative Assembly within six sitting days of receipt.

Yours sincerely



BARRY CHAMBERS
Chairperson, NT Build Board

22 November 2007

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Part 1: Introduction and overview

Chairperson's and Registrar's report

While the first year of the scheme's operation was heavily focused on its establishment and raising awareness of the scheme with workers, employers and levy payers, the 2006-2007 period has predominately been a consolidation phase.

Significant effort was devoted to developing longer term strategies aimed at improving administrative processes and supporting the ongoing financial viability of the scheme. This included adopting practices that focussed on achieving greater compliance of levy payers and developing an investment strategy.

There have been two achievements of particular note during the year relating to the sustained viability of the scheme as a result of the cash flow generated by the payment of work levies.

The first was the acquittal of the cash drawdown loan facility arranged by the NT Treasury Corporation to assist with the initial funding and establishment of the scheme. The second noteworthy achievement was the appointment of an experienced Fund Manager who commenced investing the revenue raised by the scheme. By the end of the financial year a total of \$4.2 million had been invested to cover the future liabilities of the scheme.

As a result of a further actuarial assessment it is pleasing to note that by the end of the reporting period NT Build's assets exceed its liabilities.

During the year the scheme continued to enjoy employer and worker support, achieving total registrations of 7037 workers and 204 employers by the end of 2006-2007. A further 46 benefits claims were also processed as workers reached their eligibility period.

While the high level of construction activity in the Territory provided a significant growth in levy income, the Board is conscious of the cyclical nature of the industry and maintains a conservative approach to the long term viability of the scheme.

Finally, we would like to acknowledge the continued dedication and commitment shown by the members of the Board and the staff of NT Build during this second year of operation. Their efforts have been appreciated and we look forward to their ongoing support for the year ahead.



BARRY CHAMBERS
Chairperson



THEO TSIKOURIS
Registrar

2006-2007 Highlights

- Implemented an investment program to support the ongoing financial viability of the scheme.
 - Confirmed that the scheme's assets exceeded its liabilities.
 - Contributions received from levy payers exceeded \$5 million as a result of a continued high level of activity in the construction sector.
 - Implemented revised operational practices that increased levy compliance and minimised administrative costs.
 - Recorded total registrations of 7037 workers, 204 employers, received levy payments totalling approximately \$5.3 million and made benefit payments to 46 workers.
 - Extended the service agreement for the provision of system support services with Construction Benefit Services of SA for a further 12 months.
-

2007-2008 Priorities

- Review the initial investment strategy to identify short, medium, and longer term opportunities to support the ongoing financial viability of the scheme.
 - Finalise a strategic framework that supports the effective and efficient administration of the scheme.
 - Continue to monitor, review and implement operational systems to maximise revenue collection and minimise administrative costs.
-

About the organisation

NT Build is a statutory corporation established by the *Construction Industry Long Service Leave and Benefits Act* (the CILSLB Act) which came into effect on 1 July 2005.

The purpose of the scheme as set out in the CILSLB Act is:

To provide long service leave and long service leave benefits to Territory construction workers.

The establishment of the scheme in the Northern Territory completes a network of similar schemes in all Australian jurisdictions. The Territory construction industry and its employees are therefore no longer at a disadvantage in respect of this form of benefit.

The scheme is administered by a Board, called NT Build, which comprises an independent Chairperson, an NT Treasury nominee and industry members nominated by the:

- Territory Construction Association;
- Housing Industry Association;
- Construction, Forestry, Mining and Energy Union; and
- Unions NT.

In addition to administering the scheme, the Board is responsible to the Minister for Public Employment for providing advice and making recommendations about the operations of the CILSLB Act.

The scheme, including staffing and operational expenses, is self funded through the collection of a levy imposed on construction work undertaken in the Territory and investment earnings.

This revenue is used to fund payment of long service leave benefits accrued by construction workers while working on defined projects in the Territory.

NT Build is not an agency within the meaning of the *Financial Management Act* or the *Public Sector Employment and Management Act* and as such no general allocation of funding is provided to NT Build through the Territory Budget.

Under the Administrative Arrangements Order the Office of the Commissioner for Public Employment has been given principal responsibility for the general administration of the CILSLB Act. However, under the CILSLB Act, the Board holds the specific responsibility for the day-to-day management of the Scheme and for providing advice and making recommendations to the Minister for Public Employment about the operation of the legislation.

As noted in the 2005-06 Annual Report, the staff of NT Build are OCPE employees who are made available to NT Build under a full cost recovery arrangement agreed between the Commissioner and the Board.

The NT Build Board is responsible for expending the scheme's money and has its own financial reporting requirements. Therefore separate to the OCPE, the Board has prepared this annual report on the performance of the scheme for submission to the Minister for Public Employment.

General overview – portable long service leave scheme

Key features

The scheme enables workers in the construction industry to qualify for long service leave based on their service in the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry and continue to accumulate long service leave benefits.

Some key features include:

- Long service leave coverage consistent with interstate arrangements. The Northern Territory Government is party to the reciprocal arrangements agreement between all States and the Australian Capital Territory.
- Benefits are consistent with current building and construction industry and NT long service leave standards.
- The scheme is funded through an actuarially determined levy of 0.5% on eligible construction projects of at least \$200,000 in value (with some exceptions).
- The scheme is administered by a Board appointed to oversee the management of the scheme, through a local office and with the support of a contract with an established scheme administrator (Construction Industry Long Service Leave Board, South Australia).
- Employers provide returns every six months detailing the number of service days worked by their registered workers and the scheme maintains the register.

- Arrangements have been developed to prevent double counting of service and duplication of entitlements. Recognition and transfer of prior Northern Territory service is conditional upon receipt of appropriate funding and approval by the scheme.
- The scheme is statute based, subject to tripartite governance arrangements of industry, employee and independent representatives appointed by the Minister.

Workers

The scheme enables the Territory's building and construction workers to benefit from the introduction of a portable long service leave scheme based on their service to the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry.

The portability also extends across state borders under the National Reciprocal Agreement.

A registered worker can be credited with a maximum of 260 days of qualifying service each financial year. A total of 6.5 days long service leave credit is accrued for each 260 days.

Once a worker has accrued 65 days long service leave credit (i.e. 10 years service), they can apply for 13 weeks (i.e. 65 days) long service leave, or with the agreement of their employer, take leave in separate periods of not less than 5 days. Workers need to accrue a further 32.5 days long service leave credit before they can apply for further leave.

Registered labour-only contractors can apply to cash out their leave benefits.

Special pro rata provisions are also contained in the CILSLB Act for workers who die, retire or cease to perform construction work.

Long service leave of registered workers is paid from the fund upon application by the employee.

Coverage

To be eligible for registration under the scheme a worker must:

- be employed to carry out construction work in the Northern Territory construction industry;
- work for the private sector, i.e. not for the government (including the Territory, local, interstate or Commonwealth governments);
- not be working in an administrative, clerical, office-based managerial or professional capacity;
- spend at least 50% of their work time at the construction site for the work; and
- work a minimum of three days in any reporting period (i.e. six months).

Workers employed either full-time, part-time, as a casual or as a labour only contractor (i.e. those who have an ABN) are eligible to register.

Work undertaken on both residential and commercial construction and maintenance jobs, whether big or small, is recognised as counting towards a long service leave benefit.

Employers

As noted previously, the scheme enables workers to qualify for long service leave based on their service to the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry.

The scheme is funded by:

- a levy on specified construction work in the Northern Territory; and
- investment earnings.

Most employers of construction workers will therefore not have to make any financial contribution to the scheme, as this will be the obligation of project developers. However, in certain circumstances where an employee has been continuously employed by the one employer, employers may have to contribute or pay for long service leave that accrued before 1 January 2005.

Once a worker has been registered, employers are required to keep adequate records to account for any eligible workers employed and complete an employer return form twice a year advising NT Build of the number of days worked by all registered employees and any other information required by NT Build. The information provided by employers is used to update registered worker's records.

Coverage

An eligible employer under the scheme is one:

- that employs an eligible construction worker to carry-out construction work;
- that is in the private sector (i.e. is not in the Territory, local, interstate or Commonwealth government sectors);

- and
- whose usual business is to carry out or offer to carry out construction work for reward.

An employer must register with NT Build within one month of commencing to employ a construction worker who is registered with NT Build.

Alternatively, an employer who employs one or more eligible workers may elect to register their workers with NT Build for the portable long service leave scheme at the same time they register their business.

For the purpose of this scheme, construction work includes commercial, domestic, industrial and civil construction work. Construction work covers workers performing repair, maintenance, extension and demolition work, and is regardless of whether the work performed is subject to the levy liability or exempt.

Long service levy

The scheme is funded by a levy on specified construction work undertaken in the Northern Territory and investment earnings.

The current levy rate of 0.5% is based on actuarial estimates of the anticipated level of expenses and income for the scheme.

The cost of construction work is the sum total of all contract prices for the work, covering aspects such as the cost of labour, materials (including prefabricated goods and installation), equipment, design, project management, consultancy and any other cost that directly or indirectly relates to the work.

The levy is paid by the person for whom the work is to be done except where the work is to be done for the Australian Government or an interstate Government entity, in which case the contractor doing the work is liable to pay the levy.

Unless otherwise approved, the levy is payable before construction work starts at the site of the work. It is the responsibility of the person for whom the work is to be done to notify NT Build of the work prior to commencement. Interest and fines may be imposed if the levy is not paid when required. NT Build also has the power to issue an order to stop work on the project until such time as the levy payer has met their statutory responsibility.

Coverage

Unless an exemption applies, the levy is payable on all construction projects over \$200,000 in value and is calculated as a percentage of the total cost of the work.

The levy does not apply to work:

- on Class 1a(i) and Class 10(a) buildings under the Building Code of Australia (being single detached dwellings, including related private garages, carports, sheds, or the like);
- for which the total contract price for the construction work is less than \$200,000 in value; or
- undertaken for not-for-profit organisations in respect of voluntary labour and donated materials.

Statistical highlights

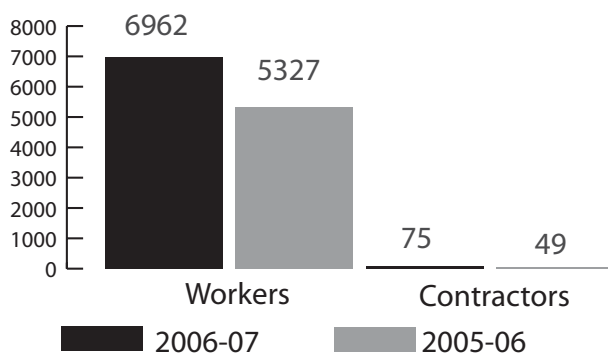
Workers

Registration numbers

The long-term forecast for numbers of worker registrations in the Northern Territory was estimated to be approximately 5000. As shown in the table and diagram below, the total number of worker registrations recorded by the scheme, in comparison with the previous reporting period, reflected an overall increase of 1661, consisting of a variance as at 30 June 2007 of 1635 employees and 26 labour-only contractors.

Total Registrations	June 07	June 06
Approved	7037	5376
Rejected	43	39

Employee Vs Contractor



Benefit payments

During the reporting period 46 claims for long service leave benefits were received. These claims resulted in a total gross benefit payments expense of \$45,612.49 in respect of work performed in the Northern Territory. The ability to recognise service credits and make benefit payments during these early years of the scheme's operation is primarily a result of the Territory scheme being a party to the National Reciprocal Agreement.

Benefit Claims	June 07	June 06
Lodged through interstate scheme	24	7
Lodged through NT Build	22	4
Total claims lodged	46	11

Age profile

	June 07	June 06
Average age	39	38
Oldest	73	72
Youngest	15	16

Days of service reported

	July 2006 - June 2007	* Jan 2005 - June 2006
Total service days	1,471,345	1,033,255
Average per worker	209	192

*includes the additional pre commencement period for workers registered by 30 June 2006

Scheme demographic

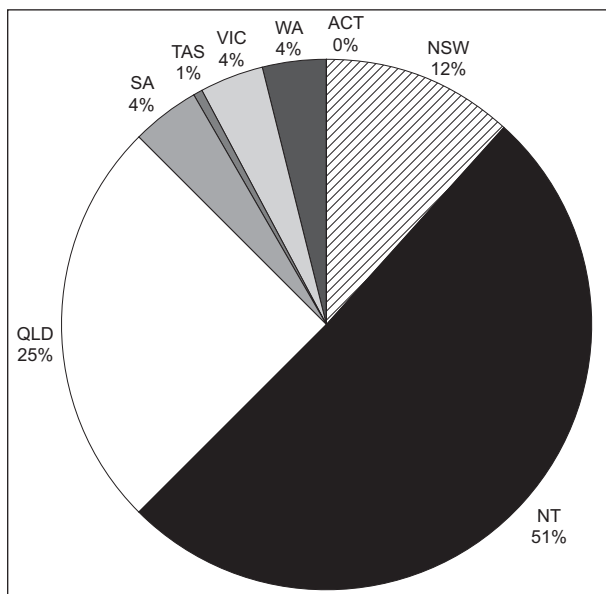
- workers by nominated contact location

The continued success of the scheme in terms of providing benefits to local Territory private sector construction workers and in attracting skilled workers to the Territory is evidenced by the following table and diagram which shows that almost half of the registered workers are Territory residents:

Table: No. of workers by contact location

	2006-07	2005-06	Diff.
ACT	7	4	+75%
NSW	824	649	+26.96%
NT	3579	2619	+36.65%
QLD	1751	1463	+19.69%
SA	291	236	+23.31%
TAS	47	35	+34.29%
VIC	270	189	+42.86%
WA	268	181	+48.07%
Total	7037	5376	+30.9%

Diagram: Percentage of workers by contact location - 2006/07



Employers

Registration numbers

Eligible employers are identified through either self registration or by notification on a worker registration form.

Employer Registrations	June 07	June 06
*Active Registrations	204	192

* excludes previously registered employers who, at 30 June 2007, did not have any current registered workers in their employ.

Long service levy

Actuarial advice

While no provision for the scheme's liability was disclosed on the balance sheet of the Board at 30 June 2006, an estimated liability amount has been incorporated in the financial statements for this current reporting period, including a retrospective amount assessed for the previous year.

As noted in the 2005-2006 Annual Report, no amount was previously disclosed as the Board considered that the information at hand was not adequate to be able to reasonably estimate the level of the accrued liability for service in that reporting period. Included in that report was the following range of factors identified as affecting the ability to reliably measure the scheme's liability:

- as a new scheme, there was no established historical data to enable an accurate assessment of the scheme's liability;
- work exempt from payment of the levy;
- expenses estimated in administering the scheme;
- level of worker registrations and service turnover;
- range of non-levied activity for which worker benefit liability will still apply; and
- a funding period of ten years for non-levied activity.

During 2007 the Board commissioned consulting actuary Cumpston Sarjeant Pty Ltd to conduct an actuarial review based on the first 18 months of data. The results of the review indicated that while in the past, reliability of data was considered uncertain, there now appears to be a

sound basis for projecting the scheme liabilities to 30 June 2007.

On that basis, the actuary recommended that a liability for accrued long service leave benefits of \$5.46 million be adopted for accounting purposes as at 30 June 2007, as the full amount for the current and previous financial periods.

Accordingly, as noted in the Financial Statements included in this report, a provision has been disclosed on the balance sheet of the Board at 30 June 2007.

It is pleasing to note that the scheme's assets exceed the estimated liabilities.

Levy payer notifications and projects

Total Levy Payer notifications	June 07	June 06
* Active levy payers who notified of leviable construction work	167	62
Total of invoices issued equating to a levy income (approximate)	\$5.3 million	\$3.2 million

*includes payers who have notified of multiple projects undertaken.

Levy compliance

- *Section 81(b) notices*

In response to a finding and recommendation contained in the NT Auditor General's report on the administration of the scheme last financial year, a new strategy was developed and implemented to strengthen levy compliance.

The strategy aims to streamline the administrative effort required to effect successful and timely prosecution of developers who choose not to fulfil their statutory obligation by notifying NT Build of the project commencement and paying the levy.

Section 81(b) of the CILSLB Act empowers the Registrar to compel a person to provide any information relating to construction work on which the levy is or may be imposed. Where a levy payer fails to comply with a section 81(b) notice the person would be prosecuted for failure to comply and a court order would be sought for the person to comply with the notice and to pay costs.

- *Debt recovery*

During the reporting period the following two debt collection agents were engaged, under a panel contract arrangement to provide debt collection services to NT Build for a period of 2 years.

1. TDC (NT) Pty Ltd trading as Territory Debt Collectors and Process Servers, and
2. Bridgement Smith Holdings trading as Bridgement Smith Collections together with Top End Bailiff and Collection Service

The appointment of the debt recovery agencies is a crucial step in the effectiveness of the Section 81(b) strategy. In instances where a levy payer has complied with the section 81(b) notice but subsequently ignores a subsequent 'Notice of Determination' (issued by the Board for the purpose of deciding on the levy amount payable), the matter would be handed to a debt recovery agency for action.

Investment of funds

As noted in the Financial Statements included in this report, NT Build accumulated sufficient funds from the revenue raised from the payment of levies for the Board to commence investing.

The liabilities of NT Build will be, in the main, longer term and will be influenced by wage growth. In addition, it should be noted that NT Build is not an agency within the meaning of the *Financial Management Act* or the *Public Sector Employment and Management Act* and as such no general allocation of funding is provided to NT Build through the Territory Budget. The scheme is fully self-funded through the collection of a levy imposed on construction work undertaken in the Territory and investment earnings.

This revenue is therefore used to fund payment of long service leave benefits accrued by construction workers while working on defined projects in the Territory and to meet staffing and operational expenses.

The Board considered it appropriate to invest in both growth and interest bearing assets. During this reporting period that Board implemented an initial investment strategy aimed at supporting and sustaining the future financial viability of the scheme. The strategy embraced a conservative balance of both growth and interest bearing assets.

MLC Implemented Consulting (GWM Adviser Services) was appointed by the Board as the scheme's first Fund Manager.

By the end of the financial year a total of \$4.2 million had been invested to cover the future liabilities of the scheme.

Further detail regarding the performance of the scheme's invested funds is provided in the Financial Statements included in this report.
