



NT Build - portable long service leave

Annual Report 2007-2008

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 2007-2008 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.

Published by NT Build

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ISSN 1834-1888

ISSN 1834-190X (online version)

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Letter of transmission

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

Dear Minister

RE: NT BUILD ANNUAL REPORT 2007-2008

On behalf of the NT Build Board, I am pleased to present you with the third NT Build Annual Report, for the year ending 30 June 2008.

The report details the activities and achievements of NT Build during its third 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 2008 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

24 November 2008

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Part 1: Introduction and overview

Chairperson's and Registrar's report

The 2007-2008 reporting period has been a period of further consolidation for the scheme which has now been in operation for three years. It also provided the opportunity for Board members and staff to continue to develop, refine and implement a range of shorter term administrative processes and longer term strategies aimed at streamlining administration and supporting the ongoing financial viability of the scheme.

The Territory continued to benefit from a relatively high level of construction activity during this reporting period which provided a considerable growth in levy income. Conscious of the cyclical nature of the industry, the Board however maintains a conservative approach to the long term viability of the scheme.

By the end of the financial year the Board was able to invest a further \$6.7 million of accumulated funds from revenue raised from the payment of levies to cover the future liabilities of the scheme. A total combined investment portfolio of approximately \$10.2 million was achieved by 30 June 2008. Given the volatility in financial markets which emerged during the year the Board reviewed its investment strategy and took steps to minimise the exposure of its investments. The scheme's assets continue to exceed the estimated liabilities.

During the year the scheme continued to enjoy employer and worker support, achieving total registrations of 9241 workers and 219 employers by 30 June 2008. Thanks to the National Reciprocal Agreement, a further 71 benefits claims were also processed as workers reached their eligibility period. It is pleasing to note that the number of registered workers increased by more than 30% from the previous reporting period.

Following the scheme's successful completion of three (3) years of operation, an extensive actuarial review has been scheduled for the first quarter of the 2008-2009 financial year. This review will encompass the administration of the scheme, the methods used in working out long service benefits and the levy rate. When available, a report on the findings of this review will be tabled in Northern Territory Legislative Assembly and will be published on the NT Build website.

Finally, we also acknowledge the hard work and commitment undertaken by the members of the Board and the staff of NT Build. Their continued dedication is commendable and we look forward to their ongoing support and working with them in the year ahead.



BARRY CHAMBERS
Chairperson



THEO TSIKOURIS
Registrar

2007-2008 Highlights

- Reviewed the initial investment strategy and implemented short to medium term opportunities that support the ongoing financial viability of the scheme within the current global market climate.
- Finalised a strategic framework that supports the effective and efficient administration of the scheme.
- Contributions received from levy payers exceeded \$7.9 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 9241 workers, 219 employers and made benefit payments to 71 workers.
- Developed a closer working relationship with major investors in the development and resource industries.

2008-2009 Priorities

- Finalise a strategic compliance audit framework that strengthens levy compliance and supports the effective and efficient administration of the scheme.
- Conduct an actuarial review of the administration of the scheme, methods used in working out long service benefits, and the levy rate.
- Identify and implement a suite of on-line and electronic business transaction services that improve processing interaction between stakeholder and NT Build.
- Continue to monitor and review the investment program to identify appropriate opportunities to support the ongoing financial viability 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 four industry members.

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 (OCPE) 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.

The scheme, including staffing and operational expenses, is self funded through the collection of a levy imposed on eligible construction work undertaken in the Territory and investment earnings. This revenue is used to fund the payment of long service leave benefits accrued by construction workers while working on defined projects in the Territory.

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. The Board has therefore 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 a Ministerially determined levy, of 0.5% on eligible construction projects of \$200,000 or more in value (with some exceptions), after consideration of actuarial advice.
- 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.

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

- be employed to carry out construction work on a site in the Northern Territory;
- 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.

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.

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 and determined by the Minister responsible 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.

Unless an exemption applies, the levy is payable on all construction projects of \$200,000 or more 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

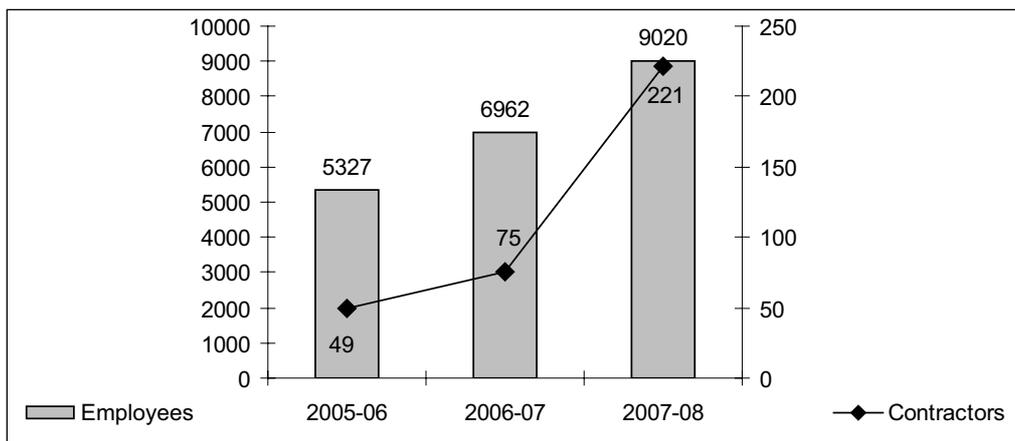
While the long-term forecast for numbers of worker registrations in the Northern Territory was estimated to be approximately 5000, membership numbers continue to grow at a steady rate.

As shown in the table and diagram below, the total number of worker registrations recorded by the scheme reflected an overall increase of 2204 when compared to the previous reporting period. This variance consisted of 2058 employees and 146 labour-only contractors.

Table: Summary of employee and contractor registrations

Total Registrations	June 2006	June 2007	June 2008
Approved	5376	7037	9241
Rejected	39	43	60

Diagram: Employee Vs Contractor

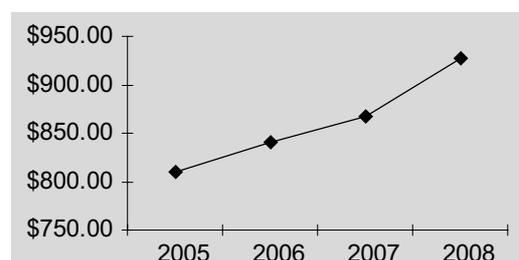


Benefit payments

Once a worker has accrued 65 days long service leave credit they can apply to use the credit. The benefit rate for the payment for the credit is determined by the Board, having regard to the average weekly ordinary time earnings for the construction sector published by the Australian Bureau of Statistics. The rate is reviewed annually, generally on 1 July, and the defined rate is applied to both workers and contractors. The benefit payment rate for the 2007-08 period was \$867 per week and at the Board Meeting held on 10 June 2008 the new rate of \$927 per week was approved to take effect from 1 July 2008. The table and diagram below illustrates the annual movement in the benefit rate since the commencement of the scheme.

Table and Diagram: Approved Benefit rates and Annual movement in rate

2005-06	2006-07	2007-08	2008-09
\$810 pw	\$841 pw	\$867 pw	\$927 pw

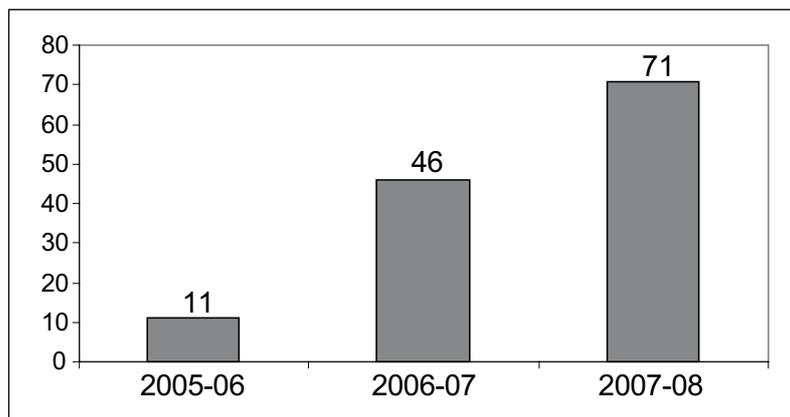


During the 2007-08 reporting period 71 claims for long service leave benefits were received. These claims resulted in a total gross benefit payments expense of approximately \$105,000 in respect of work performed in the Northern Territory.

The ability to recognise service credits and make benefit payments during these early years of the scheme's operation is a result of the Territory scheme being a party to the National Reciprocal Agreement.

Table and Diagram: Benefit claims process

Benefit Claims	2005-2006	2006-2007	2007-2008
Lodged through interstate scheme	7	24	50
Lodged through NT Build	4	22	21
Total claims lodged	11	46	71



Age profile

	June 06	June 07	June 08
Average age	38	39	39
Oldest	72	73	74
Youngest *	16	15	14

*Registrations are accepted from apprentices working in the construction sector, including school based apprentices

Days of service

	* June 2006	June 2007	June 2008
Total estimated service days	1 M	1.5 M	2.6 M
Average per worker	192	209	278

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

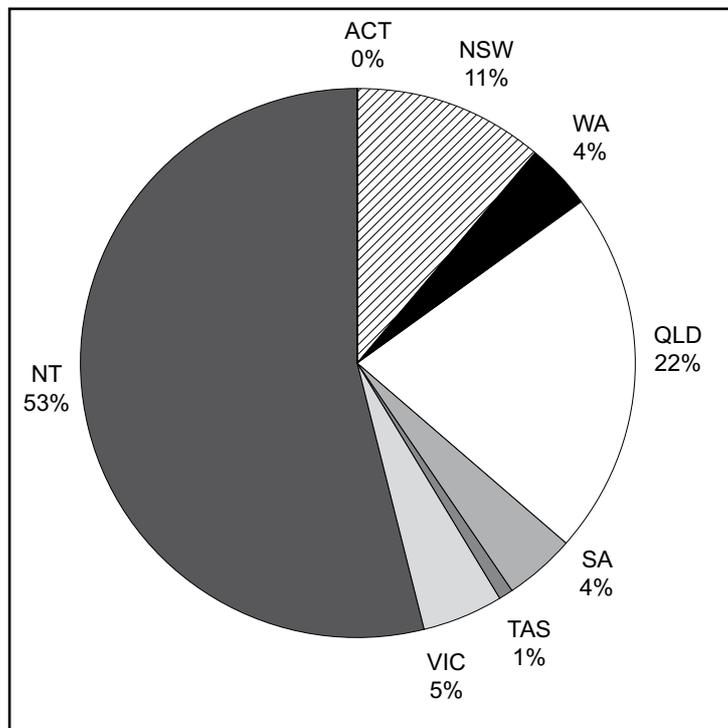
Scheme demographic

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 more than half of the registered workers are Territory residents.

Table: No. of workers by contact location

	2005-2006	2006-2007	2007-2008
ACT	4	7	10
NSW	649	824	1025
NT	2619	3579	4970
QLD	1463	1751	1991
SA	236	291	383
TAS	35	47	64
VIC	189	270	438
WA	181	268	360
Total	5376	7037	9241

Diagram: Percentage of workers by contact location - 2007/08



Employers

Eligible employers are identified through either self registration or by notification on a worker registration form and the numbers are shown in the table below.

Table: Active employer registrations

	June 2006	June 2007	June 2008
*Active Registrations	192	204	219

* excludes previously registered employers who, at 30 June 2008, did not have any current registered workers in their employ.

Levy payment and compliance

The Board is pleased to note the generally high level of compliance by project developers.

Table: Summary of projects notified and levies paid

Total levy payer notifications	June 2006	June 2007	June 2008
* Active levy payers who notified of leviabale construction work	62	167	278
Total of invoices issued equating to a levy income (approximate)	\$3.2 M	\$5.3 M	\$7.9 M

*includes payers who have notified of multiple projects undertaken.

Notwithstanding the above, some developers have been reluctant to provide information to assist the administration of the scheme.

Section 81(1)(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(1)(b) notice the person could be prosecuted for failure to comply with the notice.

Issuing of section 81(1)(b) notices aims to streamline the administrative effort required to effect successful and timely prosecution of developers who choose not to fulfil their statutory obligation to notify NT Build of the project commencement and paying the levy. As demonstrated in the table below, a total of 26 notices were issued during the 2007-2008 reporting period as a consequence of increasing the use of this provision.

Table: Summary of section 81(1)(b) action

YEAR	B/FWD	New Notices	Finalised	C/FWD
2007-2008	3	26	19	10
2006-2007	-	5	2	3

The Board will continue to pursue compliance issues to ensure that the scheme is administered equitably.

Debt recovery

In October 2006, the NT Build Board authorised the Registrar to recover debts owing to the scheme directly through the engagement of a debt collection agent and, if necessary, through the small claims court. As noted in last years Annual Report, two debt collection agents (TDC NT Pty Ltd and Bridgement Smith Holdings) were selected to undertake this work.

The engagement of debt collection agents is reserved for those instances where a levy payer, who has been issued an invoice by NT Build in relation to a levy amount owing, defaults on the payment of their levy obligation. In those instances, the matter is handed to a debt recovery agency for action.

During the 2007-2008 reporting period two (2) levy payers were referred to debt collection agents for recovery action, resulting in the successful payment of outstanding levy money owed.

Actuarial advice

A number of factors affect the actuary's ability to reliably measure the scheme's liability. These factors include:

- as a relatively new scheme, the limited extent of established historical data available 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;
- the extend to which service credits are abandoned without benefit payments in the future; and
- a funding period of ten years for non-levied activity.

Notwithstanding the above, the scheme's consulting actuary Cumpston Sarjeant Pty Ltd has advised that there appears to be a sound basis for projecting scheme liabilities to 30 June 2008.

On that basis, the actuary recommended that a liability for accrued long service leave benefits of \$7.6 million be adopted for accounting purposes as at 30 June 2008. Accordingly, as noted in the Financial Statements included in this report, that provision has been disclosed on the balance sheet of the Board at 30 June 2008.

It is pleasing to note that, while the number of registered workers increased by more than 30% from the previous reporting period, the scheme's assets continue to exceed the estimated liabilities. However, given the cyclical nature of the construction industry and the volatility of investment markets the Board continues to monitor this situation closely.

Following the scheme's successful completion of three (3) years of operation, an extensive actuarial review has been scheduled for the first quarter of the 2008-2009 financial year, as required by the CILSLB Act. This review will encompass the administration of the scheme, the methods used in working out long service benefits and the levy rate. When available, a report on the findings of this review will be tabled in Northern Territory Legislative Assembly and will be published on the NT Build website.

Investment of funds

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

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 used to fund the 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 liabilities of NT Build will be, in the main, longer term and will predominantly be influenced by wage growth. Accordingly, in early 2007 the Board implemented an initial investment strategy which embraced a conservative balance of both growth and interest bearing assets. By the end of the 2006-2007 financial year a total of \$4.2 million had been invested with the scheme's principal Fund Manager (MLC Implemented Consulting - GWM Adviser Services) to cover the future liabilities of the scheme.

During this current reporting period the Board undertook regular reviews of its investment strategy, taking into account the scheme's overall investment performance and the volatile global investment climate.

As illustrated by the following table and diagram, by the end of this current reporting period a further \$3.9 million was invested with MLC Implemented Consulting - GWM Adviser Services and a total of \$2.8 million was invested with the Territory Insurance Office (TIO) into interest bearing term deposits.

Table: Funds invested with Fund Managers

Fund Managers	2005-06	2006-07	2007-08	TOTAL
MLC (GWM)	\$0	\$4.2 M	\$3.9 M	\$8.1 M
TIO	\$0	\$0	\$2.8 M	\$2.8 M
TOTAL	\$0	\$4.2 M	\$6.7 M	\$10.9 M

Diagram: Funds invested with Fund Managers

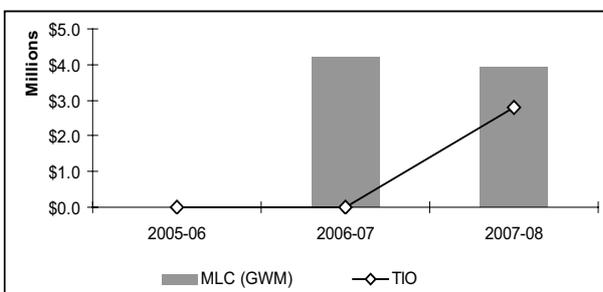
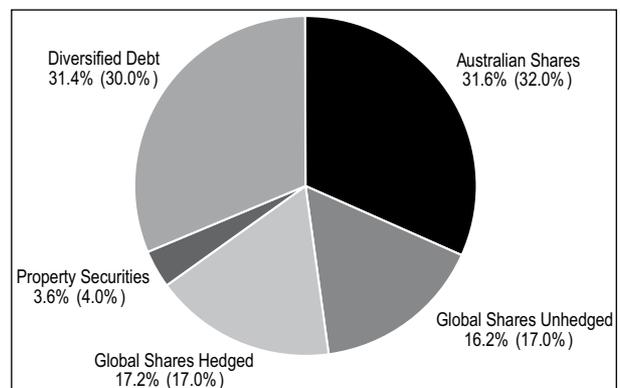


Diagram: Actual and strategic (brackets) asset allocations of the MLC managed portfolio - 30/6/08



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