



# NT Build - portable long service leave

## Annual Report 2015-16

### 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 2015-16 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 construction industry portable 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 to Minister

The Hon Michael Gunner MLA  
Minister for Trade, Business and Innovation  
Legislative Assembly of the Northern Territory  
Darwin NT 0800

Dear Minister

RE: NT BUILD ANNUAL REPORT 2015-16

On behalf of the NT Build Board, I am pleased to present you with the eleventh NT Build Annual Report, for the year ended 30 June 2016.

The report details the activities and achievements of NT Build during its eleventh 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).

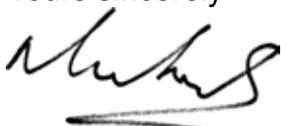
I advise that, to the best of my knowledge and belief, the system of internal control within NT Build provides reasonable assurance that:

- 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 are 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 2016 and her comments are contained in this report. I am pleased to advise that this is the first year that NT Build's Financial Statements have not carried a qualification by the Auditor-General.

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



MICHAEL MARTIN OAM  
Chairperson, NT Build Board

25 October 2016



# Chairperson's Report

This year has been challenging for NT Build in terms of financial management due to a number of factors that are not within the NT Build Board's control. The continued impact of the April 2014 levy reduction and threshold increase, which was imposed by the previous Territory government, has certainly impacted on the Scheme's reported revenue and its ability to achieve a level of revenue to match its projected liabilities in future years. However, the projected and reported expenditure in the Territory's construction industry, especially the Commonwealth's Defence expenditure, will have a beneficial impact on future NT Build revenues.

The Board is aware of the volatility in the financial markets and the impact that uncertainty can have on the significant financial investment of NT Build of some \$80 million. The NT Build Board is aware of the significance of movements in the market and the impact on its financial viability. This was a major factor in the decision of the Board to review its investment strategy during the year. This resulted in its decision to maintain a sound investment approach based on its implemented consultant model. The Board continually monitors its financial investment and the returns achieved, and liaises closely with the Department of Treasury and Finance.

It is important that I address the reported loss of some \$17 million this financial year. While the loss is significant it is not entirely unexpected due to; the maturity of the Scheme (now in its 11th year); severe reduction in the levy amount and increase in threshold in 2014; a difficult financial market; a significant increase in liabilities due to the Inpex project (which brings benefits to the Territory) and the Scheme's inability to recognise a potential significant

revenue asset in this year's account. Another significant impact is the historically low discount rate of 2% pa which reflects the lower interest rate environment in Australia. In light of the reported loss the Board is meeting regularly with its actuary to assess the Scheme's sustainability. The Scheme still has significant assets to meet its emerging liabilities at present.

On a very positive note I am pleased to point out that the Financial Statements now have an unqualified Statement as NT Build has demonstrated that it has appropriate measures in place to collect all revenues due to it. The Board has worked diligently to achieve this result.

It is very appropriate that I take this opportunity to thank my fellow board members for their contribution over the past 12 months and their input in to the strategic issues addressed by the Board during the year.

The Registrar has covered a number of relevant matters in his report which I will not repeat here including the continuing maturity of the Scheme reflected in the significant growth in liabilities. The Registrar continues to work closely with the Board and on behalf of the Board I thank him for his support and commitment.

Finally I acknowledge the work and diligence of all staff over the past 12 months and thank them all for their dedication and successful outcomes in 2015-16.



MICHAEL MARTIN OAM  
Chairperson



# Registrar's Report

The Scheme's equity of \$17.9 million recorded for this reporting period was significantly down from the \$35.3 million reported in 2014-15. This was reflective of a combination of matters including the impact of the 2014 reduction in the levy rate and the increase in the leviable threshold amount, along with the maturing of the Scheme.

The Scheme received a total levy income of \$3.7 million in 2015-16, representing an increase of approximately \$1.2 million when compared to the 2014-15 year. This income consisted of a combination of levies paid in respect of new works commenced during the reporting period and additional amounts following reconciliations of the cost of completed projects whose initial levies were paid in a previous reporting period.

The maturing of the Scheme, and the steady increase in registrations of active workers, largely associated with the Inpex LNG project, also saw the total estimated accumulated liabilities for the Scheme substantially grow by \$17.9 million to approximately \$63.46 million as at 30 June 2016. While this saw NT Build record a current year net loss of around \$17.4 million, the Scheme maintains sufficient financial assets to cover the long service leave claims liabilities.

Registrations for employer and worker participation in the Scheme during the year continued to grow, with total active registrations of 27 054 workers and 523 employers as at 30 June 2016 being achieved.

A total of 678 benefit claims were also processed during the year as more workers became eligible for benefit payments. This

represented an increase of 330 claims in comparison to 2014-15, and a total of 2132 since the Scheme commenced. Eligibility for paying these benefits was possible in part due to the National Reciprocal Agreement, which recognises workers' service in all other Australian jurisdictions and the maturing of the Scheme. This growth in benefit claims is expected to continue to accelerate over the coming years as Scheme member's entitlements continue to mature.

The successful development and implementation of a new business system, was also achieved. The LeaveTrack system provides a more resilient operating platform and a range of enhanced online self-service functionality for clients. Access to the new system was made available from 1 July 2016.

I also take this opportunity to acknowledge and thank the members of the Board and the staff of NT Build for their continued dedication, commitment and hard work. I look forward to their ongoing support and working with them in the year ahead.



THEO TSIKOURIS  
Registrar



# Part 1: Introduction and Overview



## 2015-16 Highlights

- Completed a review of the Scheme's investment strategy to ensure a relevant investment approach is adopted by its implemented consultant.
- Finalised and implemented system enhancements to convert all workers' long service leave records to apply the 220 days annual capping change for all service recorded with NT Build.
- Finalised the development and implementation of a new business system aimed at minimising administration costs. The new system, which supports a suite of on-line customer self-service business transactions, was made fully available to customers from 1 July 2016.
- Implemented revised biannual reporting practices on workers' qualified service days that reduce the administrative burden on employers.
- Recorded estimated total accumulated liabilities of \$63.46 million (significant increase of \$17.9 million in comparison to the 2014-15 period). However, Scheme's assets continue to cover liabilities.
- Recorded a net deficit for the year of \$17.4 million, of which \$17.3 million related to the increase in long service leave liabilities as determined by the Scheme's actuary.
- Received approximately \$3.6 million in levy contributions (up from the \$2.4 million achieved in 2014-15).
- Increases in both worker and employer registrations during the year. Total active registrations of 27 054 workers and 523 employers recorded with the Scheme as at 30 June 2016.
- Made benefit payments to 678 workers who have been involved in the NT construction industry at a cost to the Scheme of approximately \$2.53 million (up from the 348 payments at a cost of \$1.43 million made in 2014-15).
- Qualification on Financial Statements removed by the Auditor-General.

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## 2016-17 Priorities

- Continue to monitor and review the investment program to identify appropriate opportunities to support the ongoing financial viability of the Scheme.
- Finalise the redevelopment of the Scheme's website, designed to integrate customer self-service functionality and be adaptable for viewing on multiple electronic device formats (phone/tablet/computer).
- Closely monitor the Scheme's financial position and report on its ongoing financial status in the current low levy (0.1%) and high threshold (\$1M) environment.
- Monitor and review the operation of a new business system to ensure operational savings, improvements and efficiencies are maximised.
- Continue to monitor, review and implement operational systems to maximise revenue collection and minimise administrative costs for NT Build and maximise stakeholders convenience.
- Continue to actively encourage the registration of all eligible workers and relevant employers.
- Maintain a strong compliance regime to ensure Scheme levy revenue is maintained.

## 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 completed 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 a chairperson, and six members nominated by the Minister.

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 in force for the period ended 30 June 2016 the Department of Business<sup>1</sup> had the principal responsibility for the general administration of the CILSLB Act. However, in accordance with 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 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 Northern Territory Public Sector employees who are made available to the NT Build Board under an agreed full cost recovery arrangement.

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 responsible Minister.

<sup>1</sup> Following the change in Government after the General Election held on 27 August 2016, new Administrative Arrangements Orders (AAO) were issued on 31 August 2016 and 12 September 2016 announcing changes to the structure of the public service. Under the latest AAO principle responsibility for the general administration of the CILSLB Act was allocated to the newly formed Department of Trade, Business and Innovation. While the Minister for Business was the responsible Minister as at 30 June 2016, this report has been submitted to the Minister for Trade, Business and Innovation as the current Minister responsible for the Scheme.

# 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 of this Scheme 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 consistent with current building and construction industry and NT long service leave standards.
- The Scheme is funded through a levy determined by the Minister.
- Maintenance of a register recording the number of service days worked by each registered worker within the construction industry in the Northern Territory.
- A statute based scheme, governed by a board consisting of an independent chairperson and members appointed by the Minister to oversee the management of the Scheme.

## **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 220 days of qualifying service each financial year. A total of 6.5 days long service leave credit is accrued for each 220 days. Once a worker has accrued 65 days long service leave credit (i.e. equates to 10 years service), they can apply for 65 days (i.e. 13 weeks) long service leave or, with the agreement of their employer, take leave in separate periods of not less than 5 days. Workers need to subsequently accrue a further 32.5 days long service leave credit before they can apply for further leave.

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 benefits accrued under this Scheme are paid by NT Build upon application by the worker or their authorised representative.

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, civil 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, that employer may have to contribute or pay for long service leave that accrued before 1 January 2005 under the Northern Territory private sector *Long Service Leave Act*.

Once a worker has been registered, employers are required to keep adequate records to account for any eligible workers employed. An employer return form is completed 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 workers' 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 accrual of portable long service leave at the same time they register their business.

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

## ***Long service levy***

The Scheme is funded by a levy (determined by the responsible Minister) imposed on specified construction work undertaken in the Northern Territory and from investment earnings.

The levy is payable on all eligible construction projects and is calculated as a percentage of the total cost of the work. 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 does not apply to:

- 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); or
- construction work undertaken for not-for-profit organisations in respect of voluntary labour and donated materials.

Mining and wholly artistic works are also exempt from the levy.

The levy does not apply to work for which the total contract prices for the construction work is less than:

- \$200 000 in value - for work started from 1 July 2005 to 6 April 2014, or
- \$1 million in value - for work started on or after 7 April 2014.

For construction work that costs up to \$1 billion the amount of the levy is calculated as a set percentage of the cost of the work.

A two tier levy regime applies to projects with costs in excess of \$1 billion. Under this two tier regime the 'standard' prescribed levy rate, which applies to all eligible construction projects under the Scheme, is applied to the first \$1 billion. For the portion of the project costs that exceed the \$1 billion threshold, a project specific levy rate - determined by the Minister that, on actuarial advice, is sufficient to yield the amount likely to be required to fund the long service benefits of the registered employees who carry out the particular construction work - is applied.

The 'standard' prescribed levy rates that apply to eligible construction works undertaken in the Territory are:

- 0.1% for work started on or after 7 April 2014, regardless of completion date.
- 0.3% for work started from 1 April 2012 to 6 April 2014, regardless of completion date.
- 0.4% for work started from 1 July 2009 to 31 March 2012, regardless of completion date.
- 0.5% for work started from 1 July 2005 to 30 June 2009, regardless of completion date.

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.

# Statistical highlights

## Workers

### Registration numbers

The CILSLB Act defines a construction worker as a person who carries out construction work either as an employee or as a contractor - who only supplies their own labour. Construction workers can also be engaged on a full-time, part-time or casual basis.

As shown in the table and chart below, the total number of active worker registrations

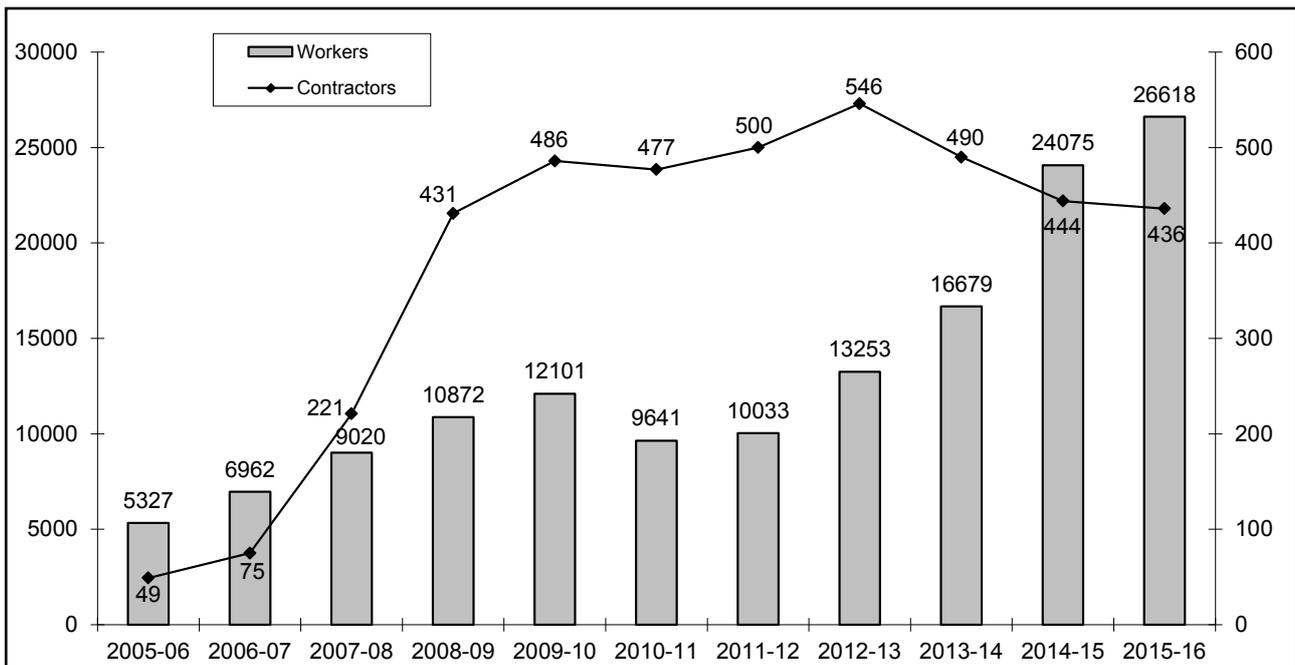
recorded by the Scheme reflected a net increase of 2535 on the numbers for the previous reporting period. This variance consists of 2543 more employees and 8 less labour-only contractors.

This increase in the number of worker registrations is predominantly reflective of the start of various construction phases of infrastructure projects, including those directly and indirectly related to the Inpex LNG project.

Table 1.1: Total number of active worker registrations

Total Active Registrations	June 2013	June 2014	June 2015	June 2016
Approved	13 799	17 169	24 519	27 054

Chart 1.1: Active employee and labour-only contractor registrations



Section 13(1)(a) of the CILSLB Act requires the Registrar to deregister a person who has not been credited with any qualifying service for a continuous period of four years. The first of this deregistration process occurred in September 2010, with on going deregistrations being automatically processed biannually.

The highly transient nature of the Northern Territory construction industry workforce is evidenced not only by the increase in registrations during this reporting period but also by the significant overall number of workers deregistered (inactive) from the Scheme as at 30 June 2016 - totalling 11 157 workers (an increase of 2160 from the previous reporting period).

While these deregistered (inactive) workers are no longer active in the Territory construction industry a majority of the workers are still believed to be actively working in the construction industry interstate.

Under the terms of the National Reciprocal Agreement, a person deregistered with the NT Build Scheme may be eligible to have their service credits reinstated if they are registered with an interstate scheme and have continued to work in the construction industry interstate.

Each Australian state and territory is party to the National Reciprocal Agreement. This Agreement provides for a worker's service credits while working in the building and construction industry in any of the states or territories, to be recognised as part of that worker's qualifying period of service for the purpose of determining their long service leave entitlement.

This means that workers are able to have construction industry service worked both with multiple employers and across multiple jurisdictions combined towards accruing a long service leave entitlement.

While it is possible that a significant proportion of the Scheme's deregistered workers will have their NT service reinstated under the terms of the National Reciprocal Agreement, the actual portion of service credits that will be reinstated will only be known over time.

Anecdotal evidence also suggests that, for whatever reason, there remains a number of workers in the local construction industry that would be eligible to participate in the Scheme but are as yet unregistered.

Some of the likely issues affecting Scheme registrations includes:

- Very high turnover of employment in the local construction industry.
- The high proportion of the Territory construction industry workforce operating as labour-only contractors rather than employees.

Industry feedback also supported anecdotal evidence that there may be a significant number of eligible labour-only contractors in the Northern Territory who are not registered with the Scheme.

- The voluntary nature of the NT Build Scheme (whereas most equivalent interstate schemes are compulsory).

### Benefit payments

A worker who has accrued a long service leave credit can apply to use the credit. The benefit rate for the payment of 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.

This process provides greater certainty in predicting future liabilities than is the case for a number of interstate schemes.

The benefit payment rate for the 2015-16 period was \$1254 per week.

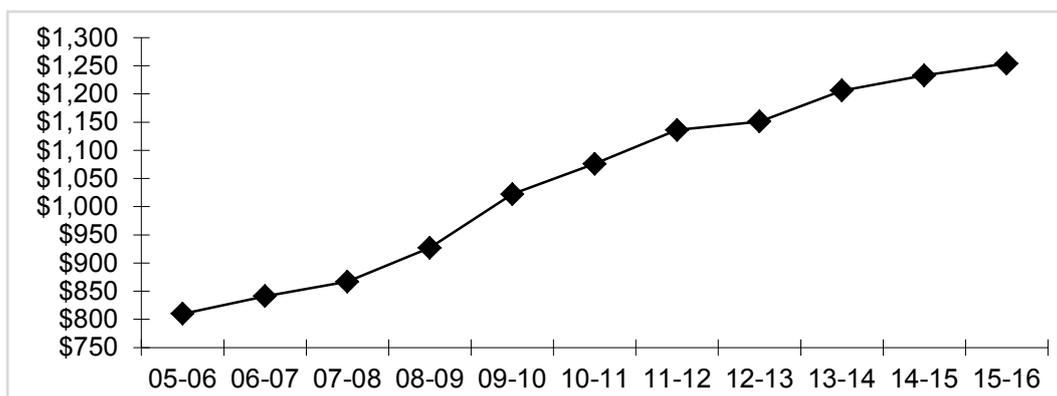
Table 1.2 and chart 1.2 below illustrates the annual movement in the benefit rate since the commencement of the Scheme.

The CILSLB Act also contains special pro rata provisions to enable a long service leave benefit to be paid to workers who retire, cease to perform construction work or die.

Table 1.2: Approved benefit rates

2015-16	\$1254 pw
2014-15	\$1233 pw
2013-14	\$1206 pw
2012-13	\$1151 pw
2011-12	\$1136 pw
2010-11	\$1076 pw
2009-10	\$1022 pw
2008-09	\$927 pw
2007-08	\$867 pw
2006-07	\$841 pw
2005-06	\$810 pw

Chart 1.2: Annual movement in benefit rate



Generally a worker must accrue 65 days long service leave credit (i.e. 2200 eligible service days = 10 years service) before they can apply to use their first credit of long service leave. Once accrued, the leave may also be taken in separate periods of not less than 5 days.

Subsequent credits of long service leave can be used after every additional accrual of 32.5 days long service leave credit (i.e. 1100 service days = 5 years service).

As the NT Build Scheme has now matured, the number of workers who have now accrued a long service leave entitlement has also increased.

As reflected in the table 1.3 below, these claims resulted in a total gross benefit payments expense of approximately \$2.5 million in respect of work performed in the Northern Territory.

The number of claims processed during this reporting period increased by almost 95%, resulting in an increase cost to the Scheme of \$1.1 million for benefits paid in comparison to the previous 2014-15 reporting period.

Both the number of claims and amounts paid out are expected to continue to increase.

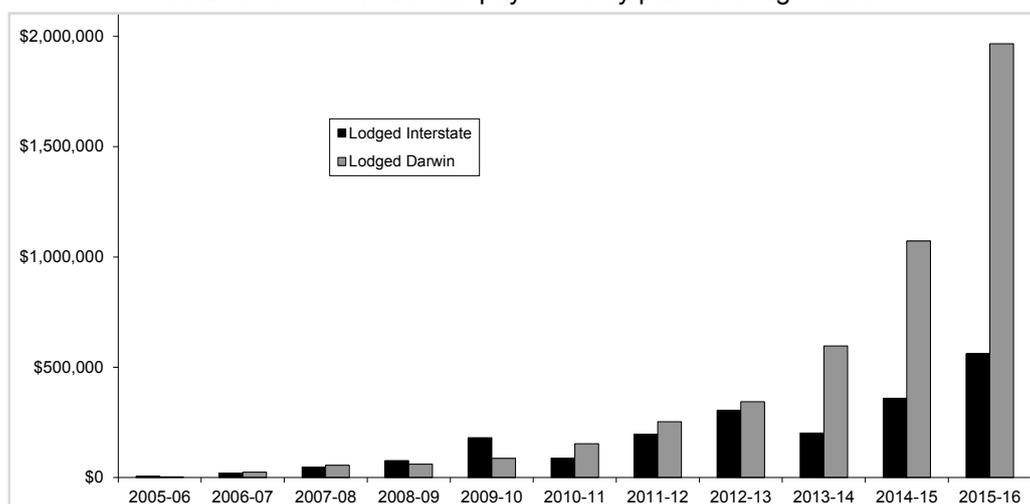
Being party to the National Reciprocal Agreement has also enabled NT Build to recognise service credits and make benefit payments both before the Scheme matured or a worker achieved ten years of service within the Territory.

Chart 1.3 below illustrates the Scheme's financial liability for benefit claims that were lodged direct with NT Build and those lodged through a reciprocal interstate portable long service leave scheme.

Table 1.3: Benefit claims processed

<b>Benefit Claims</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Lodged through interstate scheme	166	124	188	270
Lodged through NT Build	69	105	160	408
<b>Total claims lodged</b>	<b>235</b>	<b>229</b>	<b>348</b>	<b>678</b>

Chart 1.3: NT benefit payments by place of lodgement.



## Registration profile

Table 1.4: Age profile

	June 13	June 14	June 15	June 16
Average age	37	38	38	38
Oldest #	78	79	80	81
Youngest *	15	15	16	15

\*Registrations are accepted from apprentices working in the construction sector, including school based apprentices  
 #Includes workers who have been inactive for less than 4 years and therefore not yet deregistered

Table 1.5: Days of service

	June 13	June 14	June 15	June 16
Total estimated service days	6.38M	7.23M	9.57M	11.28M

## Scheme demographic

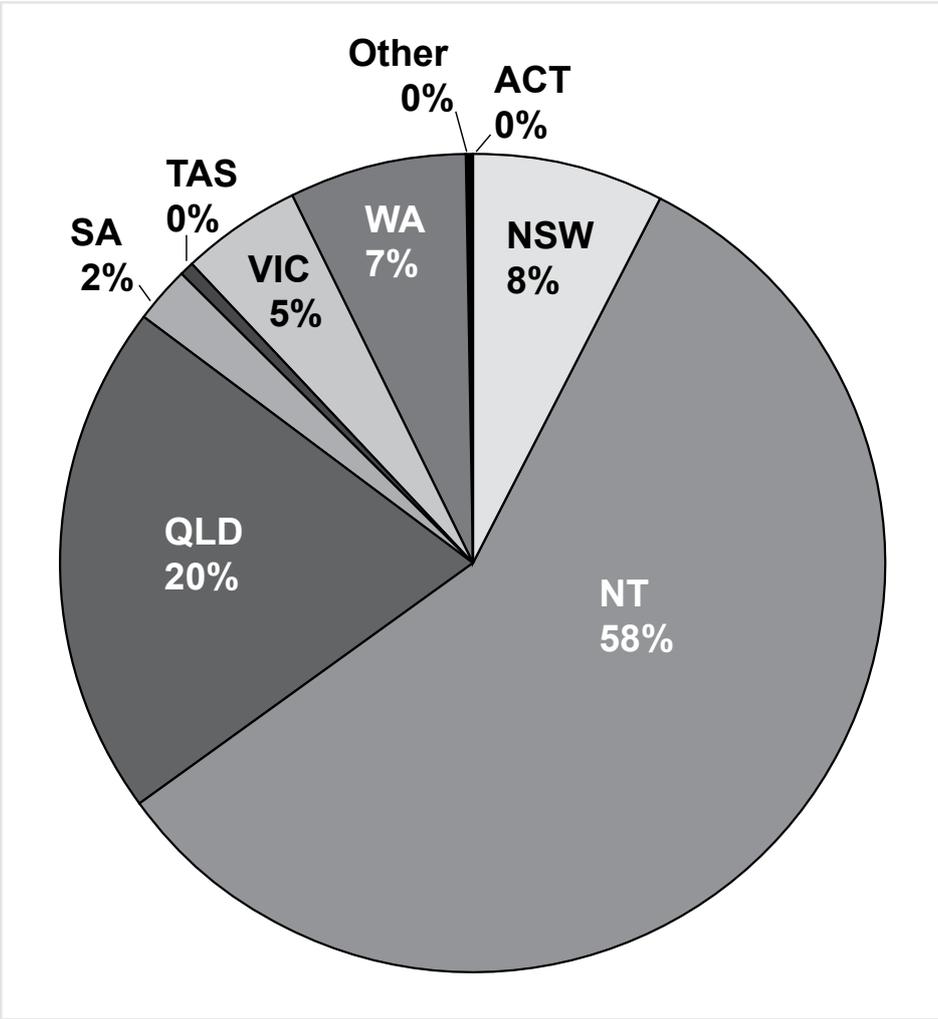
The continued success of the Scheme in terms of providing benefits to Northern Territory construction industry workers and contributing to the attraction of skilled workers to the Territory is evidenced by the following table and chart.

While these show that almost two thirds of the Scheme's active registered workers record a Territory contact address, the table and chart also helps to illustrate the transient nature and mobility of the workforce in the construction industry across state and territory borders.

Table 1.6: No. of active workers by contact location

	2012-13	2013-14	2014-15	2015-16
ACT	17	21	27	26
NSW	1 066	1 210	1 829	2 055
NT	9 201	11 413	14 907	15 576
QLD	1 970	2 608	4 281	5 433
SA	336	355	551	610
TAS	108	108	142	147
VIC	601	733	1 616	1 270
WA	484	4702	1 159	1 928
Other	16	19	7	9
<b>Total</b>	<b>13 799</b>	<b>17 169</b>	<b>24 519</b>	<b>27 054</b>

Chart 1.4: Percentage of active workers by contact location, 2015-16



## Employers

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

Section 81(1)(a) of the CILSLB Act empowers the Registrar to compel a person who employs construction workers to provide any information relating to that employment. Where an employer fails to comply with a section 81(1)(a) notice the person could be prosecuted for failure to comply with the notice.

Issuing of section 81(1)(a) notices aims to streamline the administrative effort required to effect successful and timely prosecution of employers who choose not to fulfil their statutory obligation to notify NT Build about the number of days of service each registered employee worked and any periods of long service leave granted by the employer to any registered employee.

No notices were issued under this provision during this current reporting period.

Table 1.7: Active employer registrations

	June 2013	June 2014	June 2015	June 2016
Employers	395	468	502	523

## Levy payment and compliance

The levy rate has been reduced over time, with the current rate of 0.1% coming into effect from 7 April 2014. The exemption threshold value was also increased from \$200,000 to \$1 million at that time. Examples of other exemptions to the levy include; Class 1a(i) and Class 10(a) buildings under the Building Code of Australia, mining and wholly artistic works.

The table 1.8 below provides a summary comparison of total levy payments received from project developers.

Table 1.8: Summary - levy payer contributions

	June 2013	June 2014	June 2015	June 2016
Total levy income # (approx.)	\$9.6M	\$3.9M	\$2.4M	\$3.7M

#includes accrual of full levy amount where payment by an instalment plan has been granted

The Scheme's levy income during the 2015-16 period increased by \$1.2 million in comparison to the previous reporting period. The total income received, however, related to a combination of levies paid in respect of new works commenced during the reporting period and additional amounts following reconciliations of the cost of completed projects whose initial levies were paid in a previous reporting period.

NT Build has continued to enjoy a high level of compliance by project developers with the assistance of the office, especially field officers.

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.

The Board continues to pursue compliance issues to ensure that the Scheme is administered equitably.

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 table 1.9 below, two notices were issued during the 2015-16 reporting period.

Table 1.9: Summary - section 81(1)(b) action

<b>YEAR</b>	<b>B/FWD</b>	<b>New Notices</b>	<b>Finalised</b>	<b>C/FWD</b>
<b>2015-16</b>	1	2	3	-
<b>2014-15</b>	-	4	3	1
<b>2013-14</b>	1	2	3	-
<b>2012-13</b>	1	6	6	1
<b>2011-12</b>	2	15	16	1
<b>2010-11</b>	1	9	8	2
<b>2009-10</b>	5	20	24	1
<b>2008-09</b>	10	25	30	5
<b>2007-08</b>	3	26	19	10
<b>2006-07</b>	-	5	2	3

## **Debt recovery**

The NT Build Board has 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.

The use of debt collection agents is generally 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 and after other efforts to secure payment have failed.

Table 1.10: Summary - debt recovery action

<b>YEAR</b>	<b>B/FWD</b>	<b>New Action</b>	<b>Finalised</b>	<b>C/FWD</b>
<b>2015-16</b>	-	2	1	1
<b>2014-15</b>	2	3	5	-
<b>2013-14</b>	-	5	3	2
<b>2012-13</b>	2	1	3	-
<b>2011-12</b>	3	4	5	2
<b>2010-11</b>	-	3	-	3
<b>2009-10</b>	1	1	2	-
<b>2008-09</b>	-	3	2	1
<b>2007-08</b>	-	2	2	-
<b>*2006-07</b>	-	-	-	-

\*Debt collection agents appointed with effect from 4 June 2007

## Investment of funds

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

The Scheme is fully self-funded through the collection of a levy imposed on construction work undertaken in the Territory and earnings from invested accumulated funds. This revenue is used to fund the payment of long service leave benefits accrued by construction workers while working in the Territory and to meet the Scheme's operational expenses.

The Scheme completed its eleventh year of operating on 30 June 2016. While the liabilities of NT Build will in the main continue to be longer term, as a result of the Scheme's maturity the payment of benefits to workers significantly increased during 2015-16, with the value (including National Reciprocal payments) exceeding the amount of levy revenue received.

With the continued levy collection structure of 0.1% on projects over \$1 million, this trend is likely to continue and is expected to have a material impact on the fund's medium to long term sustainability. The sound investment of the accumulated funds of the Scheme plays an increasingly vital role in ensuring there will be sufficient funds to meet that longer term liability.

The Board continued to implement the Scheme's investment strategy through a combination of:

- direct cash investments with Members Equity Bank (MEB) and the Peoples Choice Credit Union (PCCU);  
and
- a multi-asset class, multi-manager fund provided by our implemented consultant JANA Moderate Trust.

This strategy also encompasses a rolling three year forward outlook for projecting the short-term financial status of the Scheme. Given the often cyclical nature of the construction industry generally and the high potential impact of large resource development projects in the Territory, the Board considers that projections beyond this horizon are suitable only for actuarial purposes.

In order to sustain the financial viability of the Scheme in the context of the ongoing volatility of the global financial markets, the Board closely monitors and refines the Scheme's financial assets to ensure any adverse exposure of its investments are minimised.

At the conclusion of the 2015-16 reporting period it is pleasing to note that, as a result of the investment portfolio, the Scheme's liabilities continued to be well covered by the Scheme's assets.

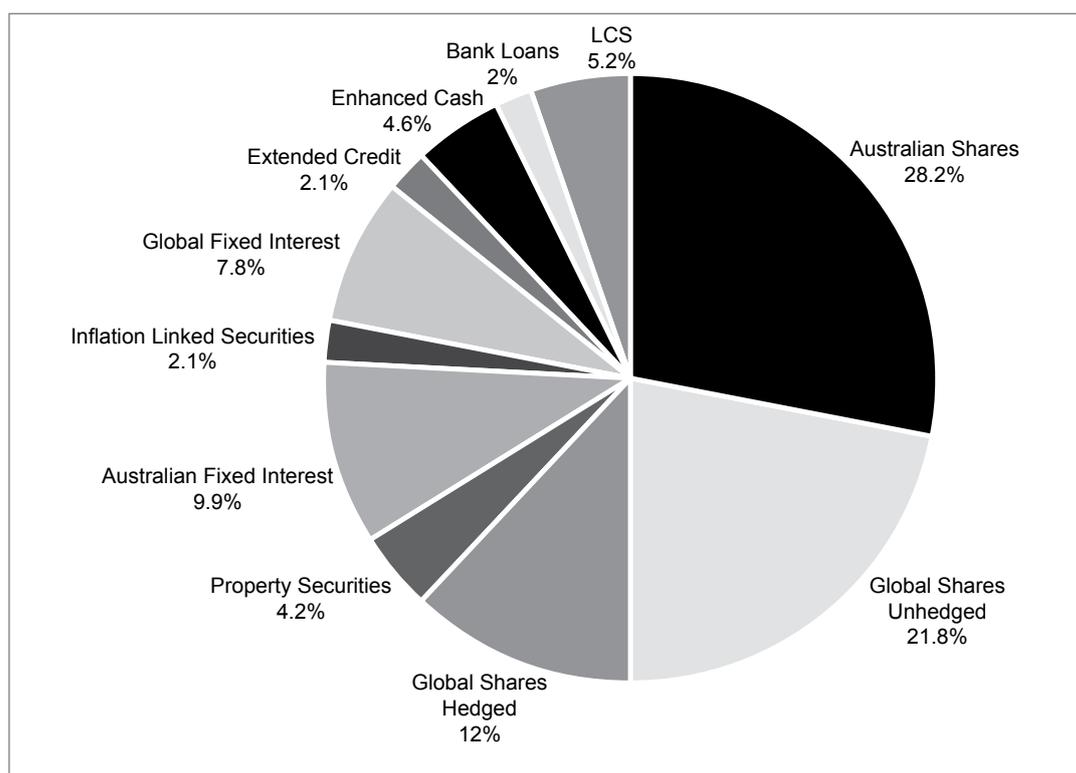
Information regarding the performance of the Scheme's investments is provided in the Financial Statements included in this report.

The following table 1.11 reflects a summary of the actual (pre interest) fund amounts transferred to the fund managers for investment, while chart 1.5 illustrates the actual asset allocations of the Scheme's JANA managed portfolio as at 30 June 2016.

Table 1.11: Summary - actual funds transferred to fund managers for investment

Fund Managers	Total funds invested as at 30 June 2015	Funds invested/ (redeemed) during 2015-16	Total funds invested as at 30 June 2016
MLC/JANA	\$56.8M	\$0M	\$56.8M
PCCU	\$3.8M	(\$1.4M)	\$2.4M
MEB	\$2.1M	(\$1.7M)	\$0.4M
<b>TOTAL</b>	<b>\$62.7M</b>	<b>(\$3.1M)</b>	<b>\$59.6M</b>

Chart 1.5: Actual asset allocations of JANA managed portfolio - 30 June 2016



## Actuarial advice

### *Long service leave liability*

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

- The extent of established historical data available to enable an accurate assessment of the Scheme's liability;
- Extent and range of non-levied construction work undertaken that is exempt from payment of the levy and for which worker benefit liability will still apply;
- Expenses estimated in administering the Scheme;
- Level of worker registrations and service turnover;
- Period of service credits accumulated before a benefit payment is claimed;
- Benefit payment rate applied and the salary growth rate for the construction industry; and
- The extent to which service credits are abandoned without benefit payments in the future.

Having regard for the above factors, the Scheme's consulting actuary Cumpston Sarjeant Pty Ltd assesses and recommends a liability amount for accrued long service leave benefits to be adopted for accounting purposes as at 30 June each year.

In the past the actuary has used a simple aggregate model when assessing the Scheme's liability but, due to an increasing body of available demographic experience, a change to a more sophisticated individual projection model was adopted from the 2014-15 assessment and going forward.

In performing the liability valuation for this 2015-16 reporting period the following key assumptions were made by the Actuary:

- A discount rate of 2%, determined based on the prevailing Commonwealth bond rate at 30 June 2016 as required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets;
- Benefit growth rate of 4% per annum, consistent with Department of Treasury and Finance's expectations for future salary growth in the Territory;
- Exit rates based on experience in NT Build, similar schemes and more general population measures;
- Benefits assumed to be paid immediately when claimed however vested benefits may not be immediately claimed and are assumed to be paid up to 4 years from vesting;
- Benefit rate increase of 1.75% effective from 1 July 2016 for 2016-17;
- The proportion of workers eligible to claim is assumed to vary with service as workers with interstate service may claim benefits on exit with fewer service credits and 100% eligibility is assumed by 1100 days due to payment on deregistration vesting at that point;
- Leave will be taken at rates consistent with Scheme experience with allowance for differing rates of leave for the approximately 47% of workers with some indication of interstate service on their records;
- 30% of inactive members will reactivate;
- Allowance for future Scheme administration expenses of 16% of accrued leave liability; and

- Estimate about 1.057 million days of service credits will be reported in future in respect of past reporting periods, as a consistent pattern of delay in reporting service credits over time has emerged and has become an enduring feature of the Scheme.

The most significant elements in the revised valuation resulting in an increase in liability from the 2014-15 valuation included;

- lower benefit rate growth in 2016 than assumed, meaning a decrease in liability adjustment;
- lower rates of exit to inactive status and other demographic variations, meaning higher probability of reaching benefit entitlement and higher liability adjustment;
- benefit payments made higher than assumed, meaning lower remaining service credits and lower liability adjustment; and
- a large 2015-16 additional liability, associated with high levels of service reporting due to Inpex LNG project, but also related to workers with increasing average service length meaning the probability of a higher number of workers accruing a benefit entitlement.

Taking all of these factors into account, the greatest unknowns in the liability valuation are the assumptions regarding member movements (exit rates and reactivation rates) and unreported service credits as at 30 June 2016. Further Scheme experience over time will refine the assumptions made and gradually reduce uncertainty in the valuation.

For accounting purposes as at 30 June 2016 the actuary recommended a liability of \$62.612 million for accrued long service leave benefits be adopted. This represents

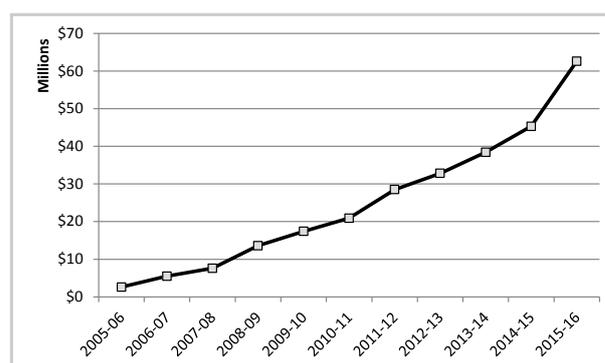
an increase of \$17.3 million from the 30 June 2015 estimate.

The following table and chart illustrate the annual growth in the Scheme's long service leave liability recorded to date.

Table 1.12: Summary - accrued long service leave liability

2015-16	\$62.6M
2014-15	\$45.3M
2013-14	\$38.4M
2012-13	\$32.8M
2011-12	\$28.5M
2010-11	\$20.9M
2009-10	\$17.4M
2008-09	\$13.6M
2007-08	\$7.6M
2006-07	\$5.5M
2005-06	\$2.6M

Chart 1.6: Rate of long service leave liability accrual



Accordingly, the provision of \$62.612 million has been disclosed on the Statement of Financial Position of the Board as at 30 June 2016 included in this report.

The NT Build Board will continue to engage an independent actuary to determine its long term liabilities.

## **Section 91 actuarial review**

Under the CILSLB Act, the Scheme's actuary must at least once every three years undertake a review of the:

- administration of the Scheme (including any financial aspect of the administration);
- methods used in working out long service benefits; and
- the levy rate.

The report on the findings of each review are presented to the Minister responsible for the Scheme and are tabled in the Legislative Assembly.

The first review of the Scheme was conducted during 2008-09 for the period ending 30 June 2008 and resulted in the NT Government:

- Approving a 20% temporary reduction in the levy rate, from 0.5% to 0.4% for two years, commencing from 1 July 2009 until 30 June 2011; and
- Introducing a \$1 billion threshold for the purpose of calculating the levy on large scale construction projects, effective from 1 July 2009.

A second triennial review was undertaken during 2011-12 for the period ending 30 June 2011 and resulted in the NT Government:

- Approving an ongoing 25% reduction in the levy rate, from 0.4% to 0.3%, effective from 1 April 2012.

A third actuarial review was conducted during 2014-15 for the period ending 30 June 2014 and resulted in the NT Government:

- Retaining the levy rate (previously reduced from 0.3% to 0.1% in April 2014) at 0.1% of leviability activity.

The report on the third review also noted that:

- the 0.1% levy rate is below the break-even levy rate and may not be sustainable in the longer term;
- while the then high level of surplus was not desirable and it was appropriate that it be reduced over time via a levy rate below the break-even rate, some level of surplus in the Scheme is necessary to have the resilience to cope with the following known variables that may impact on the surplus position,
  - Investment performance
  - Liability measurement
  - Levy income; and
- the projected levy income appears to be lower than the Scheme accruing costs, and so Scheme surplus will be eroded over coming years. Although this was not a concern in the short to medium term due to existence of a surplus, in the longer term the levy rate may have to rise to ensure financial viability of the Scheme.

The next triennial review of the Scheme is expected to be conducted following the period ending 30 June 2017.