# NT Build - portable long service leave
Annual Report 2016-17

**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 2016-17 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**



ISSN 1834-1888
ISSN 1834-190X (online version)

**Enquiries should be made to:**

NT Build – portable long service leave

| | |
|---|---|
| Street: | Units 32-33 / 12 Charlton Court, Woolner NT 0820 |
| Post: | PO Box 36644, Winnellie NT 0821 |
| General enquiries: | 1300 795 855 |
| Office phone: | (08) 8936 4070 |
| Fax: | (08) 8936 4080 |
| Email: | info@ntbuild.com.au |
| Web: | www.ntbuild.com.au |
| ABN: | 16 851 173 952 |

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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 2016-17

On behalf of the NT Build Board, I am pleased to present you with the twelfth NT Build Annual Report, for the year ended 30 June 2017.

The report details the activities and achievements of NT Build during its twelfth 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 2017 and her 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

MICHAEL MARTIN OAM
Chairperson, NT Build Board

24 November 2017

# Chairperson's Report

A significant factor for NT Build's Board for 2016-17 is the improvement in our financial performance and financial position. Last year I referred to factors that caused a loss of $17 million and seriously impacted our financial position. One of those factors was the historically low discount rate that was used to measure our long term liability. The majority of other state schemes use an asset based rate and the actuary provided a strong case to use this as the basis of the discount rate. The actuary's recommendation was accepted by the Board.

The final result was a surplus for the year of $12.6 million and a net asset position of over $30 million. There is now almost $83 million invested in capital markets which will allow NT Build to meet its liabilities.

The financial statements do not currently recognise potential revenue from the major Territory construction project, although the liabilities being accrued on this project are recognised. However as this project comes closer to completion it will be possible to recognise the revenue and this will improve the financial position of NT Build.

It has been a challenging year for NT Build due to the construction cycle but as the Registrar points out there has been record registrations due to our major project.

The NT Build Board continues to assess our investment strategy and carefully monitors the Scheme's solvency ratio. I am pleased to report that both of these critical factors have been successfully managed this year.

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. I would also like to thank the outgoing board member Craig Graham for his support and wish him well in his role as the Territory's Under Treasurer.

The Registrar has covered a number of relevant matters in his report which I will not repeat here but recommend his Report. The Registrar continues to work closely with the Board and provides an effective level of support to the Board. On behalf of the Board I thank him for his support, diligence and commitment.

Finally I acknowledge the significant contribution and commitment of all staff over the past 12 months and thank them all for their dedication and successful outcomes over the past 12 months.

MICHAEL MARTIN OAM
Chairperson

# Registrar's Report

The Scheme's equity of $30.5 million recorded for this reporting period is an improvement from the $17.9 million reported in 2015-16. While this was reflective of a combination of matters, the strengthened financial position was predominately as a result of an increase in investment earnings and a reduction in the liability valuation.

The Scheme received total levy income of $2.4 million in 2016-17, representing a reduction of approximately 33% ($1.2 million) when compared to the 2015-16 year.

The Scheme completed its twelfth year of operating on 30 June 2017. As a result of the Scheme's maturity the payment of benefits to workers significantly increased during 2016-17, with the value exceeding the amount of levy revenue received by approximately 62%. A total of 954 benefit claims were processed during the year as more workers became eligible for benefit payments. This represented an increase of 276 claims in comparison to 2015-16. 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 downturn in the general Northern Territory construction sector in combination with the current levy collection structure (of 0.1% on projects over $1 million) will see the above trend continue and is expected to have a material impact on the Scheme's long term sustainability.

Notwithstanding the general down turn, the Scheme still experienced steady increase in registrations of active workers, largely associated with the Inpex LNG project. An increase of approximately 6.5% in total active registrations of workers as at 30 June 2017 was achieved.

During this reporting period, the adoption of a changed approach to the estimating of the long service leave liability had a large impact on the Scheme's overall equity position. The move from using a risk-free to an asset-based discount rate resulted in a $10.1 million decrease to the long service leave liability valuation. Having regard for other liability factors, the overall net decrease in the total estimated accumulated liabilities for the Scheme was $6.98 million as at 30 June 2017 in comparison to 2015-16. Importantly the Scheme's assets continue to cover liabilities.

Major operational improvements, including a new business system and revised biannual reporting practices, were also implemented during this reporting period. These improvements offer a constraint on increasing administration costs and enhanced on-line customer self-service functions.

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

THEO TSIKOURIS
Registrar

# Part 1: Introduction and Overview

# 2016-17 Highlights

- Adopted a change in accounting policy from a risk-free discount rate to an asset based discount rate methodology for valuing the Scheme's long service leave liability.
- Reviewed and implemented changes to the investment strategy to support the ongoing financial viability of the Scheme.
- Changes in board membership which saw the reappointment of Michael Haire and the resignation of Craig Graham.
- Supported the completion of the fourth formal actuarial review of the Scheme for the Minister.
- Commenced operation 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.
- Activated revised biannual reporting practices on workers' qualified service days that reduce the administrative burden on employers, effective from 1 July 2016.
- Became a key Event Sponsor of the Construction Apprenticeship Mentoring Scheme (CAMS), an initiative of the Master Builders Association NT.
- Recorded estimated total accumulated liabilities of $56.48 million (a decrease of $6.98 million in comparison to the 2015-16 period due to adoption of a change in accounting policy). Scheme's assets continue to cover liabilities.
- Recorded a net increase in assets for the year of $12.61 million (compared to the $17.4 million deficit recorded 2015-16), of which $6.65 million related to the decrease in long service leave liabilities as determined by the Scheme's actuary, as a result of changing to the use of an asset based discount rate.
- Received approximately $2.4 million in levy contributions (down from the $3.7 million achieved in 2015-16).
- Increases in both worker and employer registrations during the year. Total active registrations of 28 814 workers and 554 employers recorded with the Scheme as at 30 June 2017.
- Made benefit payments to 954 workers who have been involved in the NT construction industry at a cost to the Scheme of approximately $3.9 million (up from the 678 payments at a cost of $2.6 million made in 2015-16).

## 2017-18 Priorities

- 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 ($1 million) environment.
- Continue to monitor and review the investment program to identify appropriate opportunities to support the ongoing financial viability of the Scheme.
- Continue to monitor and review the operation of primary business systems 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 audit regime to ensure Scheme levy revenue is maintained.
- Finalise the refurbishment of the office front counter area for staff security and safety reasons.

# 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 up to 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 2017 the Department of Trade, Business and Innovation 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.

# 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 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:

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

For construction work that costs $1 billion or less 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 is applied. This excess rate is determined by the Minister, on actuarial advice, and is to be 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.

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

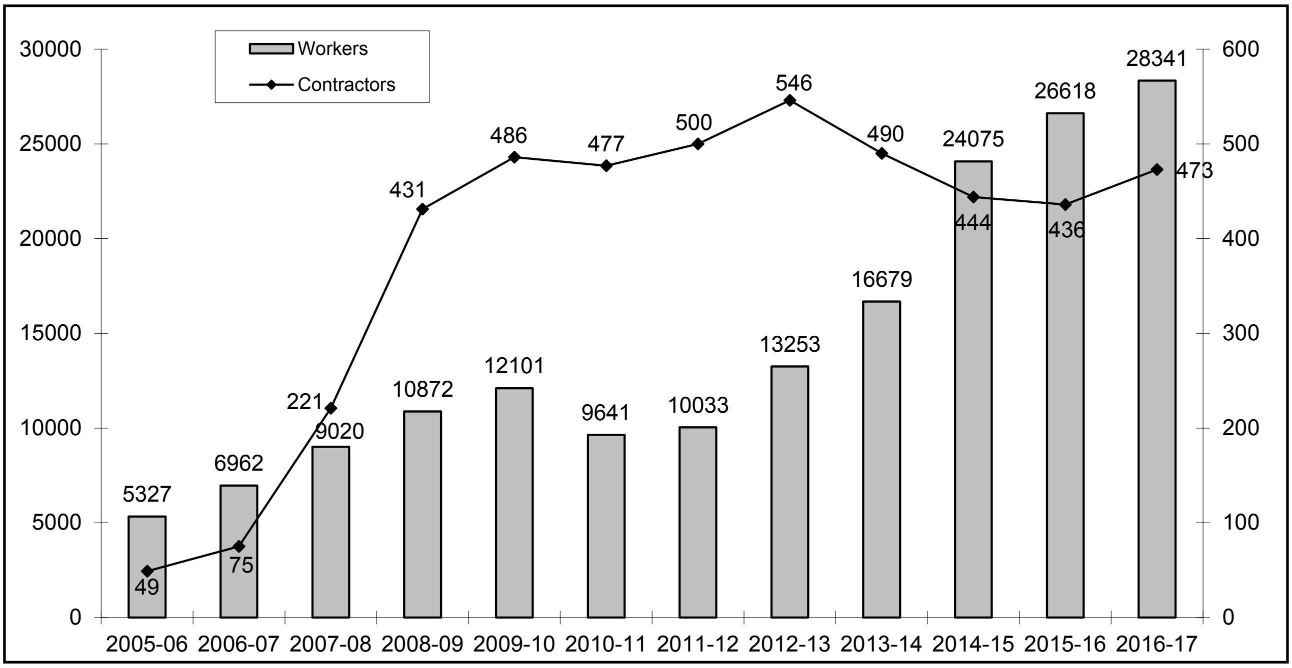
The CILSLB Act defines a construction worker as a person who carries out construction work either as an employee or as a contractor (who only supplies their own labour). Construction workers can also be engaged on a full-time, part-time or casual basis.

As shown in the table and chart below, the total number of active worker registrations recorded by the Scheme reflected a net increase of 1760 on the numbers for the previous reporting period. This variance consists of 1723 more employees and 37 more labour-only contractors.

Table 1.1: Total number of active worker registrations

| Total Active Registrations | June 2013 | June 2014 | June 2015 | June 2016 | June 2017 |
|---|---|---|---|---|---|
| Approved | 13 799 | 17 169 | 24 519 | 27 054 | 28 814 |

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 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 2017 - totalling 14 400 workers (an increase of 3243 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.
- 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.
- 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 2016-17 period was $1276 per week.

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

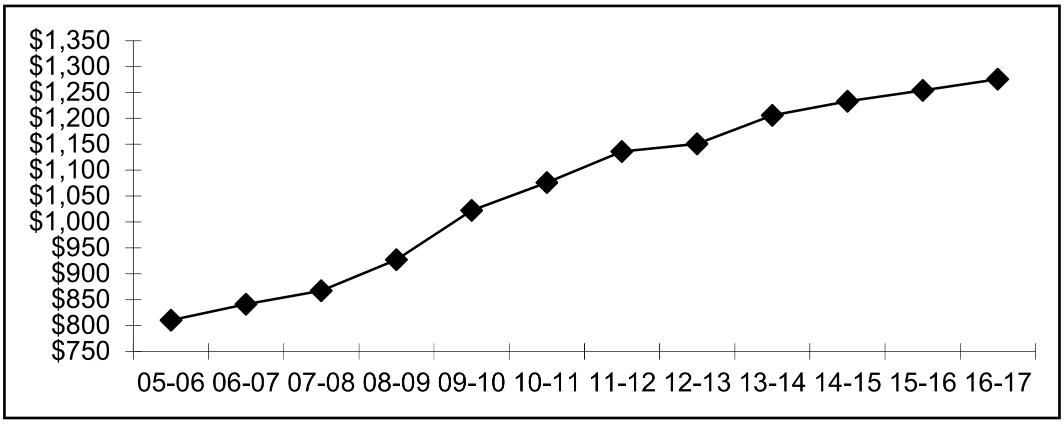
The CILSLB Act also contains special pro rata provisions to enable a long service leave benefit to be paid to workers who retire, cease to perform construction work or die.

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 be taken in separate periods of not less than 5 days.

Table 1.2: Approved benefit rates

| | | | |
|---|---|---|---|
| 2010-11 | $1076 pw | **2016-17** | **$1276 pw** |
| 2009-10 | $1022 pw | 2015-16 | $1254 pw |
| 2008-09 | $927 pw | 2014-15 | $1233 pw |
| 2007-08 | $867 pw | 2013-14 | $1206 pw |
| 2006-07 | $841 pw | 2012-13 | $1151 pw |
| 2005-06 | $810 pw | 2011-12 | $1136 pw |

Chart 1.2: Annual movement in benefit rate



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 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 $3.9 million in respect of work performed in the Northern Territory.

The number of claims processed during this reporting period increased by almost 41%, resulting in an increase cost to the Scheme of $1.3 million for benefits paid in comparison to the previous 2015-16 reporting period. A total of 3086 claims have been paid since the Scheme commenced.

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

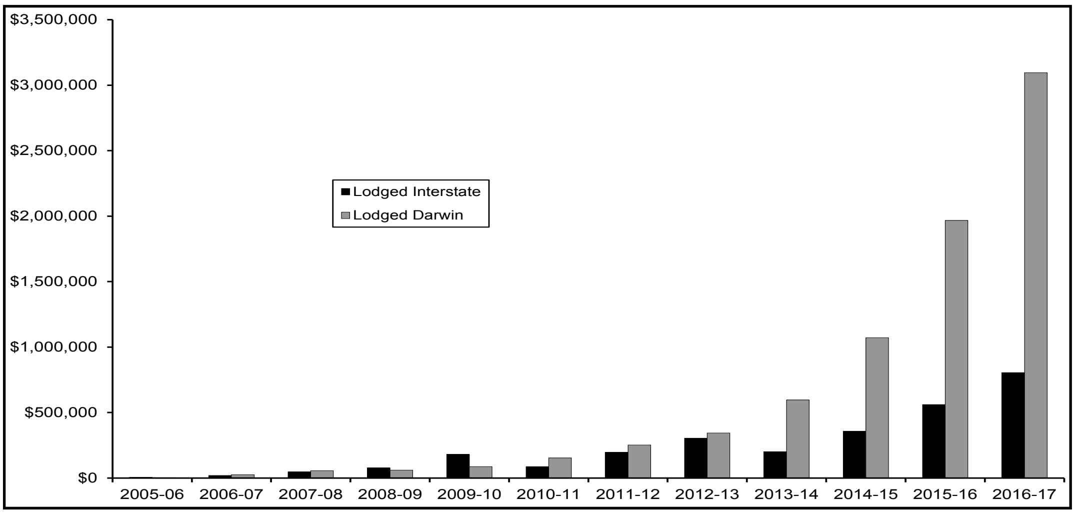
Being party to the National Reciprocal Agreement has also enabled NT Build to recognise service credits and make benefit payments both before the Scheme matured and before a worker achieves ten years of service within the Territory.

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

| **Benefit Claims** | **2013-14** | **2014-15** | **2015-16** | **2016-17** |
|---|---|---|---|---|
| Lodged through interstate scheme | 124 | 188 | 270 | 346 |
| Lodged through NT Build | 105 | 160 | 408 | 608 |
| **Total claims lodged** | **229** | **348** | **678** | **954** |

Chart 1.3: NT benefit payments by place of lodgement.



## Registration profile

Table 1.4: Age profile

| | June 14 | June 15 | June 16 | June 17 |
|---|---|---|---|---|
| Average age | 38 | 38 | 38 | 39 |
| Oldest # | 79 | 80 | 81 | 82 |
| Youngest * | 15 | 16 | 15 | 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 14 | June 15 | June 16 | June 17 |
|---|---|---|---|---|
| Total estimated service days | 7.23M | 9.57M | 11.28M | 14.07M |

## 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.

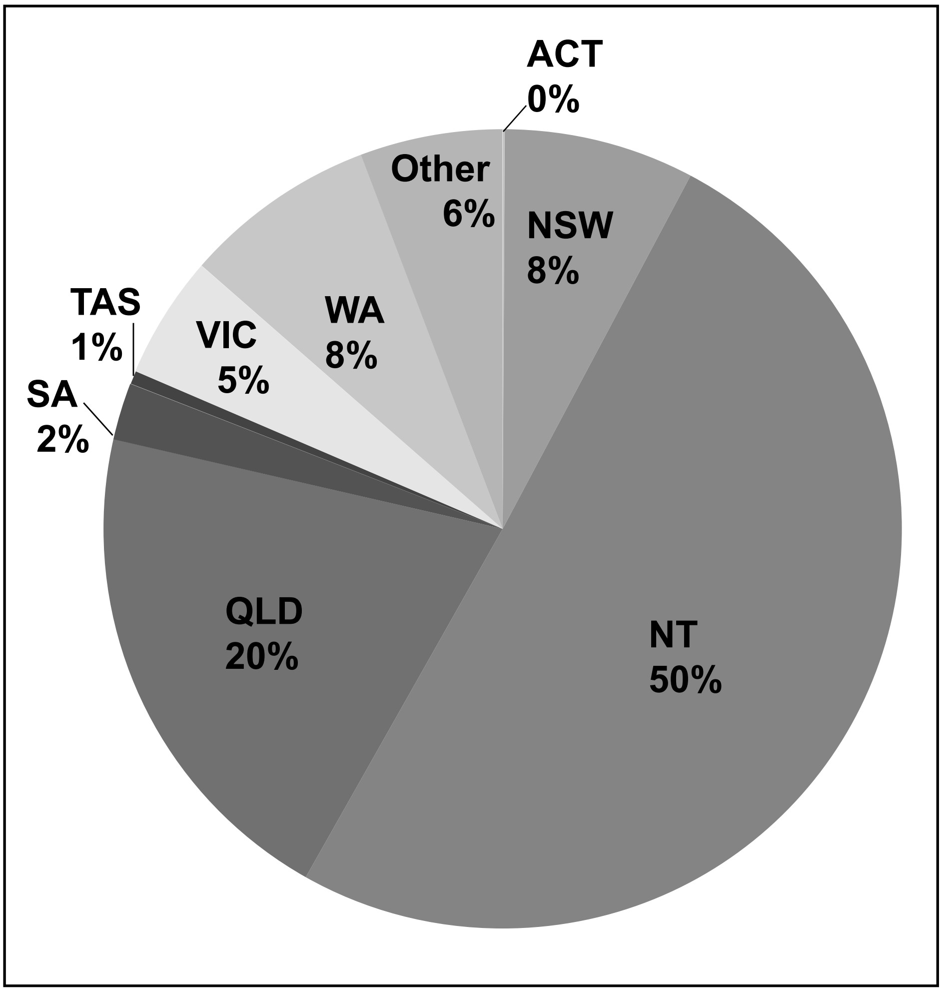
While these show that 50% of the Scheme's active registered workers record a Territory contact address, the table and chart also helps to illustrate the transient nature and mobility of the workforce in the construction industry across state and territory borders.

Table 1.6: No. of active workers by contact location

| | **2013-14** | **2014-15** | **2015-16** | **2016-17** |
|---|---|---|---|---|
| ACT | 21 | 27 | 26 | 23 |
| NSW | 1 210 | 1 829 | 2 055 | 2 219 |
| NT | 11 413 | 14 907 | 15 576 | 14 525 |
| QLD | 2 608 | 4 281 | 5 433 | 5 879 |
| SA | 355 | 551 | 610 | 669 |
| TAS | 108 | 142 | 147 | 153 |
| VIC | 733 | 1 616 | 1 270 | 1 435 |
| WA | 4702 | 1 159 | 1 928 | 2 248 |
| Other* | 19 | 7 | 9 | 1663 |
| **Total** | **17 169** | **24 519** | **27 054** | **28 814** |

*Other includes: 'unknown' and/or a non-Australian contact location

Chart 1.4: Percentage of active workers by contact location, 2016-17



## *Employers*

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

Table 1.7: Active employer registrations

| | June 2014 | June 2015 | June 2016 | June 2017 |
|---|---|---|---|---|
| Employers | 468 | 502 | 523 | 554 |

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.

Two notices were issued under this provision during 2016-17 reporting period.

## *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 2014 | June 2015 | June 2016 | June 2017 |
|---|---|---|---|---|
| Total levy income # (approx.) | $3.9M | $2.4M | $3.7M | $2.4M |

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

The Scheme's levy income during the 2016-17 period decreased by $1.3 million in comparison to the previous reporting period.

The maturity of the Scheme also saw the payment of benefits to workers significantly increase during 2016-17, with the value of payments exceeding the amount of levy revenue by approximately 62%. This, along with the downturn in the NT construction sector and the current levy collection structure (of 0.1% on projects over $1 million) will see the trend of payments exceeding levy revenue continue.

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.

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, one notice was issued during the 2016-17 reporting period.

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

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

| YEAR | B/FWD | New Notices | Finalised | C/FWD |
|---|---|---|---|---|
| **2016-17** | - | 1 | 1 | - |
| **2015-16** | 1 | 2 | 3 | - |
| **2014-15** | - | 4 | 3 | 1 |
| **2013-14** | 1 | 2 | 3 | - |
| **2012-13** | 1 | 6 | 6 | 1 |
| **2011-12** | 2 | 15 | 16 | 1 |
| **2010-11** | 1 | 9 | 8 | 2 |
| **2009-10** | 5 | 20 | 24 | 1 |
| **2008-09** | 10 | 25 | 30 | 5 |
| **2007-08** | 3 | 26 | 19 | 10 |
| **2006-07** | - | 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

| YEAR | B/FWD | New Action | Finalised | C/FWD |
|---|---|---|---|---|
| **2016-17** | 1 | 2 | 2 | 1 |
| **2015-16** | - | 2 | 1 | 1 |
| **2014-15** | 2 | 3 | 5 | - |
| **2013-14** | - | 5 | 3 | 2 |
| **2012-13** | 2 | 1 | 3 | - |
| **2011-12** | 3 | 4 | 5 | 2 |
| **2010-11** | - | 3 | - | 3 |
| **2009-10** | 1 | 1 | 2 | - |
| **2008-09** | - | 3 | 2 | 1 |
| **2007-08** | - | 2 | 2 | - |
| ***2006-07** | - | - | - | - |

*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 sound investment of the accumulated funds of the Scheme plays an increasingly vital role in ensuring there will be sufficient funds to meet both immediate and longer term liability.

The Scheme completed its twelfth year of operating on 30 June 2017. 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 2016-17, with the value exceeding the amount of levy revenue received by approximately 62%.

The downturn in the NT construction sector in combination with the current levy collection structure (of 0.1% on projects over $1 million) will see the above trend continue and is expected to have a material impact on the Scheme's long term sustainability.

To support cash flow during the 2016-17 period, the Board made the decision to have all JANA investment quarterly income distribution amounts deposited into the Scheme's operational bank account and not reinvested with JANA. In addition, maturing fixed term cash deposit funds were redeemed, when necessary.

The Scheme's investment strategy is managed through a combination of:

- direct cash investments; 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 and the low levy collection structure, 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 2016-17 reporting period it is pleasing to note that the Scheme's assets continue to cover liabilities.

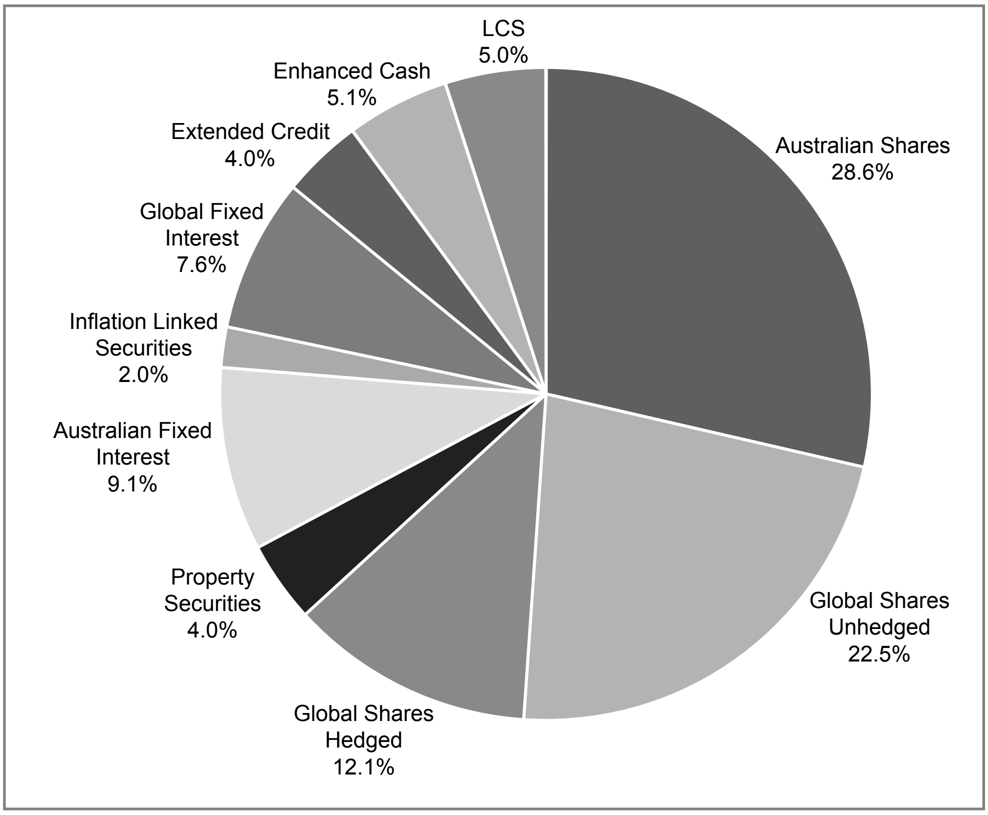
Information regarding the performance of the Scheme's investments is provided in the Financial Statements included in this report.

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 2017.

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

| Fund Managers | Total funds invested as at 30 June 2016 | Funds invested/ (redeemed) during 2016-17 | Total funds invested as at 30 June 2017 |
|---|---|---|---|
| MLC/JANA | $56.8M | $0M | $56.8M |
| PCCU | $2.4M | $0.2M | $2.6M |
| MEB | $0.4M | ($0.4M) | $0.0M |
| TOTAL | $59.6M | ($0.2M) | $59.4M |

Chart 1.5: Actual asset allocations of JANA managed portfolio - 30 June 2017



# 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 either service credits are abandoned without benefit payments accruing, or vested benefits at exit from the Scheme never being claimed.

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.

Initially a simple aggregate model was used when assessing the Scheme's liability but, from the 2014-15 assessment and going forward, a more sophisticated individual projection model has been adopted.

This reporting period also saw a changed approach to setting the discount rate (from risk-free to asset-based) which has had a large impact on the liability valuation.

Previous year's liability estimates have been calculated using a risk-free discount rate based on the yield on Commonwealth bonds. However in recent years a body of practice has emerged amongst industry LSL schemes in several jurisdictions where the discount rate has been set based on an estimate of the return on suitably invested assets. As sufficient weight of practice and opinion exists to support use of an asset-based discount rate, an asset-based discount rate approach has been adopted for valuing NT Build Scheme liabilities for 2017 and for future financial reporting periods.

The key assumptions made by the Actuary in performing the liability valuation for this 2016-17 reporting period are covered in detail in the Notes to the financial statements included in Part 3 of this report. These assumptions include the following matters:

- An asset-based discount rate of 6%;
- Long term future benefit growth rate of 3.5% per annum;
- Benefit rate increase of 1.73% effective from 1 July 2017 for 2017-18;
- Timing of payment of benefits;
- Proportion of workers eligible to claim;
- Exit rates from the Scheme;
- Differing rates at which leave will be taken;
- Extent of reactivation of inactive members;
- Scheme administration expenses;
- Service credits reported in the future in respect of past reporting periods.

Taking all of these assumptions into account, the greatest unknowns in the liability valuation are those regarding member movements (exit rates and reactivation rates) and the estimation of unreported service credits for January-June 2017. Other elements such as the rate of claiming benefits in service are not as important. Further Scheme experience over time will refine the assumptions made and gradually reduce uncertainty in the valuation.

In terms of the sensitivity of the analysis, the re-entry rate is an important determinant of eventual liability for those not currently active in the NT and there is a moderate uncertainty to the above assumption that 30% of inactive members will reactivate.

For accounting purposes as at 30 June 2017 the actuary recommended a liability of $55.962 million for accrued long service leave benefits be adopted.

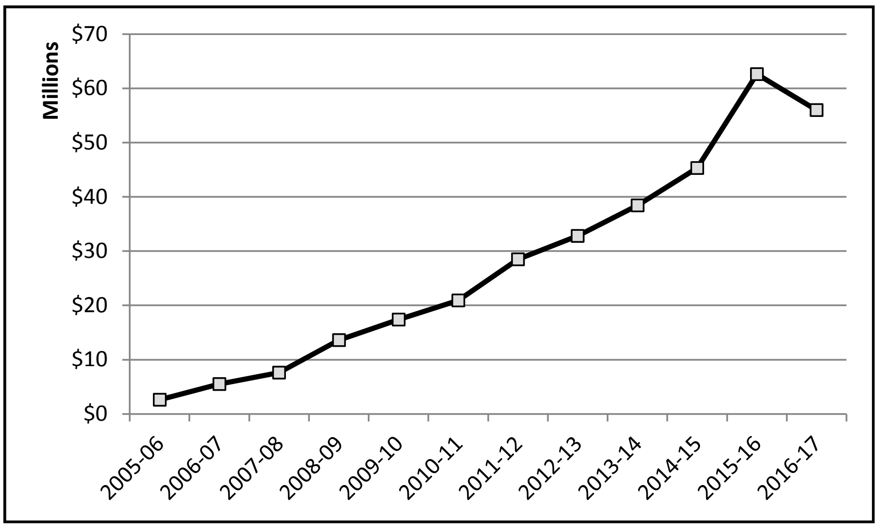
As a result of applying the asset based discount rate in lieu of the previously used risk-free discount rate when valuing the liability in this reporting period, along with adjustments to other actuarial assumptions, the 2016-17 valuation represents a net decrease of $6.6 million from the previous 2015-16 estimate.

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

Table 1.12: Summary - accrued long service leave liability

| | |
|---|---|
| 2016-17 | $56.0M |
| 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 $55.962 million has been disclosed on the Statement of Financial Position of the Board as at 30 June 2017 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.

<u>Previous reviews</u>
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 leviable 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.

Current review

While the next triennial review of the Scheme was not due to be conducted until after the completion of the period ending 30 June 2017, the Minister’s approval was sought to have the review conducted earlier in response to concerns expressed by the Board about the Scheme remaining a going concern.

The Board’s concerns were based on the factors that contributed to the reported loss of $17.4 million shown in the Scheme’s financial statements for 2015-16.

The fourth triennial review was undertaken during the 2016-17 period, with the final report being tabled in the Legislative Assembly on 16 March 2017.

The key findings from this review indicated that:

- the administration and benefits of the Scheme are appropriate;
- the moderate surplus of the Scheme is expected to decline in the next two years (with some chance the Scheme may fall into deficit) due to the Inpex liabilities accruing, however the surplus will again increase once the Inpex levy is paid at the end of the construction phase ($10 - $25 million);
- the current levy rate of 0.1 % is below the break-even rate of 0.19% - 0.23%, however due to the high level of surplus, it is recommended that the 0.1% levy rate remain unchanged for the time being; and
- that a key consideration for the ongoing sustainability of the Scheme is the Inpex levy, and the Minister will need to make a determination regarding the levy rate before it falls due.

While the review report did not recommend any immediate action to be taken by the NT Government, the NT Build Board initiated a heightened level of monitoring and oversight and have undertaken to provide advice to Government in the event that the solvency margin falls below an acceptable level.

Future review

The next triennial review of the Scheme is expected to be conducted for the period ending December 2019 at the latest.