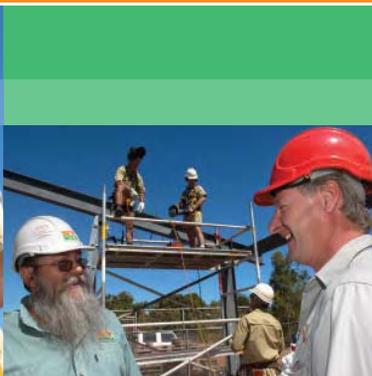


NTT BUILD

Portable long service leave

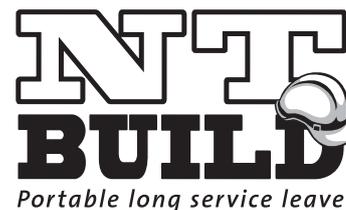
Northern Territory Construction Industry

Annual Report 2005-06



Letter of transmission

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



Dear Minister

RE: NT BUILD ANNUAL REPORT 2005-2006

On behalf of the NT Build Board, I am pleased to present you with the inaugural NT Build Annual Report, for the year ending 30 June 2006.

The report details the activities and achievements of NT Build during its first 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 2005* (the CILSLB Act).

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

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

As required by section 69 of the CILSLB Act, you are advised that the Auditor-General has audited NT Build's financial statements for the year ending 30 June 2006 and his comments are contained in this report.

Your attention is also drawn 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

A handwritten signature in black ink that reads 'Barry Chambers'.

Barry Chambers
Chairman, NT Build Board

23 November 2006

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Part 1: Introduction and overview

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 2005 by presenting the Minister responsible for NT Build with a summary of the activities of the Board during the 2005-2006 financial year.

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



The first year

Chairperson's and Registrar's report

We welcome this opportunity to report on the success the portable long service leave scheme achieved in its first year of operation.

NT Build, which is administered by a Government appointed statutory tripartite Board consisting of industry and union representatives, came into effect on 1 July 2005. The scheme is one element of a suite of reform initiatives introduced by the Territory Government for the benefit of the construction industry. The portable long service leave scheme is designed to support the reform initiatives by making Territory working conditions more competitive in the national market place.

The portability of the scheme means that Territory construction workers can qualify for long service leave based on their service to the industry rather than service to one employer. The inclusion of the Territory under the National Reciprocal Agreement has meant portability for workers also extends across state borders, providing a truly national scheme. This has meant interstate construction workers were able to relocate to the Territory without loss of long service leave entitlements accrued elsewhere.

It is a great privilege to take part in implementing an initiative such as this scheme and steering it through a very successful first year of operation. During NT Build's first year the scheme enjoyed extraordinary industry and union support, achieving the registration of 5376 workers and 192 employers. Furthermore, 11 benefits claims were processed. The ability to make benefit payments within this first year of operation demonstrated the effective use of the National Reciprocal Agreement.

An amnesty on penalties against unpaid levies declared by the Board during the year successfully resulted in 48 new notifications of leviable projects being lodged by developers. In total, the scheme received project notifications from 62 levy payers totalling approximately \$3.2 Million.

While the scheme achieved a great deal in the first year, it is nonetheless still in its infancy. The year ahead will continue to provide challenges. During the 2006-2007 reporting period, the Board will focus on developing longer term strategies aimed at improving administrative processes and supporting the ongoing financial viability of the scheme. The Board will also focus on achieving greater compliance of levy payers and start developing an investment strategy.

It is appropriate we take this opportunity to acknowledge the efforts and contributions of all people who helped this scheme become a reality. To the many people whose hard work and commitment made the successful development, implementation and operation of this scheme possible we say 'thank you'.

In particular we acknowledge the following:

- members of the Construction Industry Reference Group (CIRG),
- various staff of the Office of the Commissioner for Public Employment who contributed from concept through to implementation;
- South Australian Construction Industry Long Service Leave Board and support and assistance provided by the staff;
- Construction, Forestry, Mining & Energy Union (CFMEU), Communications, Electrical and Plumbing Union (CEPU) and Unions NT (formerly the NT Trades & Labor Council);
- various industry organisations, including the Territory Construction Association, Housing Industry Association, Civil Contractors Federation and the Chamber of Commerce NT;
- various Territory government organisations, including the Department of Planning and Infrastructure, Northern Territory Treasury and the Local Government Association of the NT;
- our appointed financial and actuarial advisors BDO Chartered Accountants and Advisers, and Cumpston Sarjeant Pty Ltd; and
- Minister for Public Employment and the Government of the Northern Territory in providing portable long service leave to Territory construction workers and for their support.

Finally, we would like to acknowledge the dedication and commitment shown by the members of the Board and the staff of NT Build during this first 12 months. Their efforts have been appreciated and we look forward to their continued support for the year ahead.



BARRY CHAMBERS
Chairperson



THEO TSIKOURIS
Registrar

2005-2006 Highlights

- Opened for business at current premises in Charlton Court, Stuart Park on 1 July 2005, coinciding with the official start date of the portable long service leave scheme.
- Celebrated achieving the milestone of 2000 registered workers at the Official Ministerial Launch of the scheme by the Minister for Public Employment in December 2005.
- Inclusion of the NT Build scheme in the National Reciprocal Agreement, signed by all state and territory Ministers responsible for portable long service leave – making long service leave for construction workers truly portable throughout Australia.
- Declared a general amnesty in May 2006 to allow developers, who had started a construction or maintenance project anywhere in the NT after 1 July 2005 (whether completed or not), to notify NT Build by 30 June 2006 of their projects and pay the levy without incurring extra interest penalties.
- Achieved at the completion of the first year of operation of the scheme total registrations of 5376 workers, 192 employers, and project notifications from 62 levy payers totalling approximately \$3.2 Million.

2006-2007 Priorities

- Develop an investment strategy that identifies short, medium, and longer term opportunities to support the ongoing financial viability of the scheme.
- Develop a longer term strategic framework for administering the scheme that identifies short, medium, and longer term issues.
- Review the NT Build website to improve the accessibility and useability of information, targeted for each main client group.
- Review operational systems to maximise revenue collection and minimise administrative costs.



General overview - portable long service leave scheme

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 benefits.

Key features include:

- Long service leave coverage consistent with interstate arrangements. The Northern Territory Government is party to the reciprocal arrangements agreement between all States and the Australian Capital Territory.
- Benefits are consistent with current building and construction industry and NT long service leave standards.
- The scheme is funded through an actuarially determined levy of 0.5% on eligible construction projects over \$200,000 in value (with some exceptions).
- The portable long service leave scheme is administered by a Board, appointed to oversee the management of the scheme, through a local office with the support of a contract with an established scheme administrator (Construction Industry Long Service Leave Board, South Australia).
- Employers provide six monthly returns detailing number of service days worked by their registered workers and the scheme maintains the register.
- Arrangements have been developed to prevent double counting of service and duplication of entitlements. Recognition and transfer of prior Northern Territory service is conditional upon receipt of appropriate funding and approval by the scheme.
- The scheme is statute based, subject to tripartite governance arrangements of industry, employee and independent representatives appointed by the Minister.

Our organisation

Establishment of NT Build

The *Construction Industry Long Service Leave and Benefits Act 2005* (the CILSLB Act) came into effect on 1 July 2005. The scheme was established by the NT Government for the benefit of the construction industry, enabling the Territory's building and construction workers to benefit from the introduction of a portable long service leave scheme.

As the last Australian jurisdiction to introduce such a scheme, the CILSLB Act has effectively equalised the Territory's construction industry with accepted schemes across Australia.

The establishment of the scheme was successfully completed on 30 June 2005 by an implementation team established within the Office of the Commissioner for Public Employment (OCPE).

On 1 July 2005 the ongoing administration of the scheme was entrusted to the Government appointed statutory tripartite Board established under the CILSLB Act. The Board, called NT Build, consists of an independent Chairperson, NT Treasury nominee, and industry members nominated by the:

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

Under the Administrative Arrangements Order the OCPE has been given principal responsibility for the general administration of the CILSLB Act. The Board however is responsible for administering the portable long service leave scheme and providing advice and making recommendations to the Minister for Public Employment about the operations of the CILSLB Act. To assist the Board in exercising its powers and performing its functions, the staff of NT Build are OCPE employees made available to the Board on a secondment arrangement agreed between the Commissioner for Public Employment (CPE) and the NT Build Board.

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

To assist with initial funding for the scheme a \$1.5 Million cash drawdown loan facility was arranged by the NT Treasury Corporation. This loan is subject to commercial rates of interest and is to be repaid in full on maturity in 2010.

As noted in the Financial Statements included in this report, an initial drawdown of \$300,000 was made in July 2005, attracting quarterly interest payments. Further withdrawals, however, were not necessary during this reporting period. To date, the cash flow generated by the payment of work levies obviated the need for further withdrawals and the Board is confident that NT Build will be able to settle the loan facility much earlier than originally anticipated.

Reactions to the scheme's introduction have been mixed but it is generally viewed as a positive change that will benefit workers, employers and the industry as a whole.

NT Build objective

As set out in the *Construction Industry Long Service Leave and Benefits Act 2005*, the purpose of the scheme is:

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

Northern Territory Government objective

The introduction of the NT Build portable long service leave scheme supports the NT Government's Economic Development (Jobs) policies.

Government: "This scheme will place Northern Territory construction industry workers on an equal footing with their counterparts in other states, and greatly assist in the recruitment and retention of skilled workers to the Territory."

– Hon. Syd Stirling MLA, 2 December 2004

Our critical success indicators

- Workers registering
- Employers completing returns
- Levy payers making contributions on time
- Satisfactory audit results
- Minister and staff are satisfied
- Effective systems implemented

Our customers

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.

A registered worker can be credited with a maximum of 260 days of qualifying service each financial year. A total of 6.5 days long service leave credit is accrued for each 260 days. Once a worker has accrued 65 days long service leave credit (ie. 10 years service), they can apply for 13 weeks (ie. 65 days) long service leave, or with the agreement of their employer, take leave in separate periods of not less than 5 days. Workers need to accrue a further 32.5 days long service leave credit before they can apply for further leave.

Special pro rata provisions are also contained in the *Construction Industry Long Service Leave and Benefits Act 2005* for workers who die, retire or cease to perform construction work.

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

NT Build offers workers:

- truly portable intra-industry long service leave that suits the project nature of the industry
- a simple, user-friendly system that works with and for employees
- leave provisions commensurate with other states and territories
- reciprocity across Australia providing job mobility, greater security and more lifestyle options
- long service recognised on an industry wide basis providing greater job flexibility and choice
- more control over the future
- no administrative burden.



Coverage

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

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

Workers employed either full-time, part-time, as a casual or as a labour only contractor (ie. ABN) are eligible to register.

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

Portable benefit

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

Employee: "If the Territory hadn't just introduced portable long service leave I wouldn't have moved here. I have now got 10 years service in three states and I can take an eight week holiday." – electrician Bob Horne.

Registration numbers

The long-term forecast for numbers of worker registrations in the Northern Territory was estimated to be approximately 5000. A total of 5376 worker registrations were recorded at the completion of the first year of operation of the scheme, consisting of 5327 employees and 49 labour-only contractors.

Workers registrations	June 06
Finalised - Approved	5376
Finalised - Rejected	39

Benefit payments

In the first year of the scheme's operation 11 claims for long service leave benefits were received, including two claims pending finalisation as at 30 June 2006. The claims finalised resulted in a total gross benefit payments expense of \$7699.05 in respect of work performed in the Northern Territory. The ability to recognise service credits and make benefit payments within this first year has been made possible due to the inclusion of the Territory in the National Reciprocal Agreement.

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

Annual certificates

The *Construction Industry Long Service Leave and Benefits Act 2005* provides for registered workers to be issued with an Annual Certificate as soon as practicable after the end of each financial year.

The inaugural issuing of certificates following the completion of the first year of the schemes operation is due to be made available after September 2006. This will allow time for updated information from employer returns to be included. Each certificate will provide details of service credited with all relevant employers and details of worker's long service leave credits.

Statistical highlights

- **Average age by gender**

The average age of Territory workers registered with the scheme at 30 June 2006 was 38.25, with the oldest being 72 and the youngest being 16.

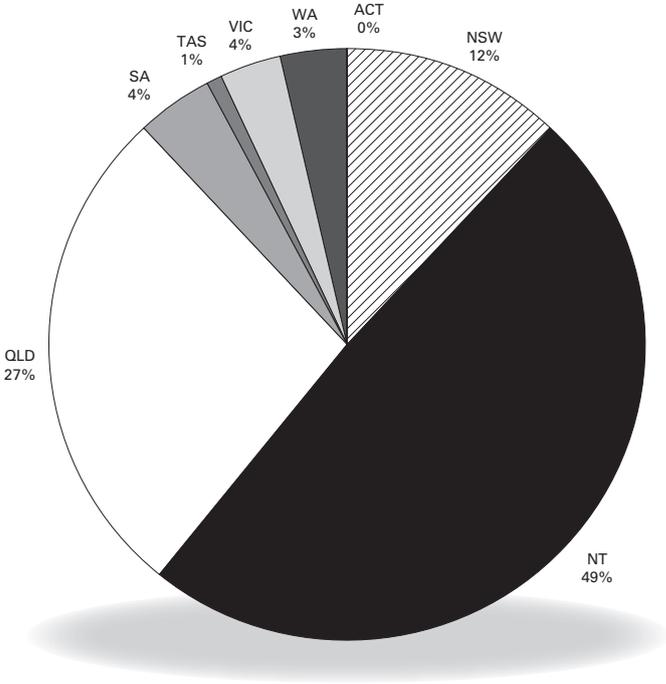
- **Days of service reported**

There have been 1,033,255 days of service reported in respect of January 2005 to June 2006 (which includes the additional pre commencement period for workers registered by 30 June 2006), making an average of approximately 192 days per registered worker.

- **Scheme demographic of registered workers by nominated contact location**

The success of the scheme in terms of providing benefits to local Territory private sector construction workers and in attracting skilled workers to the Territory is evidenced by the following table and diagram.

ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Total
4	649	2619	1463	236	35	189	181	5376



Employers

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 construction work in the Northern Territory
- Investment earnings

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

NT Build offers employers

- less liability for accrual and payment of long service leave benefits
- no financial obligation for leave accrued under the scheme
- a simple, user-friendly system that works with and for employers.

Coverage

An eligible employer under the scheme is one:

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

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

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

Employer: "The portable long service leave scheme is long overdue. People are employed for as long as the job lasts, so you can work all your life and get nothing because you have had to move from job to job. We want to give employees the best we can and this is one way of giving people a bit extra. It is vital for employers to value their workers and long service leave is one way to do that." – Rob Pattemore, Pattemore Constructions Pty Ltd

For the purpose of this scheme, construction work includes commercial, domestic, industrial and civil construction work. Construction work covers workers performing repair, maintenance, extension and demolition work, and is regardless of whether the work performed is exempt from the levy liability or not.

Registration numbers

At the completion of the first year of operation of the scheme a total of 192 eligible employers were identified through either self registration or by notification on a worker registration form.

Returns

Once a worker has been registered, employers are required to:

- keep adequate records to account for any eligible workers employed;
- complete an employer return form twice a year advising NT Build of the number of days worked by all registered employees and any other information required by NT Build; and
- notify NT Build within 14 days of terminating a registered worker.

The information provided by employers is used to update registered workers records and form the basis of the information provided to workers in their Annual Certificates.

Levy payers

The NT Build portable long service leave scheme has been established to provide long service leave benefits to construction workers in the Northern Territory. The scheme is funded by a levy on construction work and investment earnings.

NT Build "...is an industry controlled and maintained fund. It is not a government tax. This revenue will not accrue to government."

– Hon. Syd Stirling MLA, 9 February 2005

The cost of construction work is the cost of labour, materials (including prefabricated goods and installation), equipment, design, project management, consultancy and any other cost that directly or indirectly relates to the work.

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

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

NT Build works with developers to ensure they are fully aware of their responsibilities under the scheme. They are provided with:

- a fair, efficient and user-friendly collection system
- sufficient information and educational opportunities
- regular and accessible information on NT Build and how the scheme is progressing
- access to field officers and in-house assistance.

Coverage

Unless an exemption applies, the levy is payable on all construction projects over \$200,000 in value and is calculated as a percentage of the total cost of the work. The current levy rate is 0.5%.

The levy does not apply to work:

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

Developer: "We support the scheme. – it's a regulation that is imposed by government and obviously there is a need for it. Construction workers historically move from one place to another so from the workers' point of view it is pretty good" – Geoff Smith, project director for the new Lyons suburb development

Actuarial advice

An initial levy rate of 0.5% was introduced based on actuarial estimates on the anticipated level of expenses and income for the scheme.

Mr John Rawsthorne of Cumpston Sarjeant Pty Ltd was formally appointed as the Minister's consulting actuary for the scheme. The actuary is responsible for conducting a formal review of the scheme and reporting his findings and recommendations to the Minister for Public Employment on the:

- administration of the scheme;
- methods used in working out long service leave benefits; and
- levy rate.

However, as this reporting period relates to the first year of operation of the scheme, there is no established historical data to enable an accurate assessment of the scheme's liability by the actuary. While as at 30 June 2006 there is a liability for the scheme, it can not be reliably estimated for the 1st year of operation. NT Build may not have reliable data for 2 to 3 years. The range of factors affecting the measurement of the schemes liability includes:

- work exempt from paying the levy;
- expenses estimated in administering the scheme;
- level of worker registrations and service turnover;
- range of non-levied activity for which worker benefit liability will still apply; and
- a funding period of ten years for non-levied activity.

The Board commissioned consulting actuaries Cumpston Sarjeant Pty Ltd, to conduct a preliminary actuarial review based on the first six months of data. The results of the review indicated lower than expected worker registrations and also lower revenue. Given the wide margin of uncertainty over the liability, levy income and current levels of service accrual, the actuary advised there is currently not enough firm data on which to make any recommendation for a change in levy rate.

Accordingly, as noted in the Financial Statements included in this report, no provision has been disclosed on the balance sheet of the Board at 30 June 2006 as the information at hand is not considered adequate to be able to reasonably estimate the level of the accrued liability for service in this reporting period.

Registered payers and projects

At the completion of the first year of operation of the scheme a total of 62 levy payers had notified NT Build of construction work to which the long service levy applied, resulting in the issuing of invoices equating to a levy income of approximately \$3.2 Million.

Instalment requests

Although the levy is required to be paid before the work commences on the project, the levy payer can apply to the NT Build Board for payment of the levy by instalments if the:

- value of the levy exceeds a specified amount (currently set at \$10,000); and
- project is expected to take more than one year to complete or in special circumstances.



At 30 June 2006 five formal requests for payment of levy by instalments were considered by the NT Build Board. All requests were approved and consisting of instalment plans ranging between two and four payments.

Interest penalty amnesty

In May 2006 the NT Build Board declared an amnesty on penalties against unpaid levies. The purpose of the general amnesty, which expired on 30 June 2006, was to allow developers, who had started a construction or maintenance project anywhere in the NT after 1 July 2005 (whether completed or not), to notify NT Build of their projects and pay the levy without incurring extra interest penalties.

As a result of the amnesty, 48 new notifications of leviable projects were lodged by developers by 30 June 2006.

Investment of funds

Sections 70(2) and 73(2) of the *Construction Industry Long Service Leave and Benefits Act* enable the Board to make investments within the following asset classes approved by the Treasurer.

- ***Growth Assets***

Australian Shares, International Shares, Property (Listed and direct)

- ***Defensive Assets***

Australian Fixed Interest, International Fixed Interest, Inflation Linked Bonds, Cash/Short Term Securities

- ***Other Investment Sectors***

Currency Hedging, Tactical Asset Allocation, Emerging Markets, Absolute Return Funds, Hedge Funds, Infrastructure

The liabilities of NT Build will be in the main longer term and will be influenced by wage growth. While the Board considers it appropriate to invest in both growth and interest bearing assets, no formal investments were made during the year ending 30 June 2006. During this reporting period, revenue raised from the payment of levies were held at bank, accruing normal interest.

The development of an investment strategy, which will depend on NT Build's risk tolerance and cash flow forecasts, has been identified by the Board as a priority for the 2006-07 financial year.