



# NT Build - portable long service leave

## Annual Report 2014-15

### 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 2014-15 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.

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### 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](mailto:info@ntbuild.com.au)  
Web: [www.ntbuild.com.au](http://www.ntbuild.com.au)  
ABN: 16 851 173 952





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# Letter to Minister

The Hon Peter Styles MLA  
Minister for Business  
Legislative Assembly of the Northern Territory  
Darwin NT 0800

Dear Minister

RE: NT BUILD ANNUAL REPORT 2014-15

On behalf of the NT Build Board, I am pleased to present you with the tenth NT Build Annual Report, for the year ended 30 June 2015.

The report details the activities and achievements of NT Build during its tenth 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 2015 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

21 October 2015



# Chairperson's Report

NT Build has now completed a very successful 10 years and I would like to congratulate all staff and board members who have contributed to shaping a successful organisation and outcome. I must recognise my predecessor Barry Chambers who led the organisation for nearly all those 10 years. Barry's leadership and guidance and his credibility within the construction sector has built the successful platform for NT Build.

This is the first full financial year that the new levy and threshold has been applied and NT Build is confident that all appropriate developments have been identified. NT Build staff continue to work closely with stakeholders and the sector.

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 has established a sound investment approach with its implemented consultant and continually monitors its financial investment and returns achieved.

There were a number of changes to the Board this year. I have already referred to the inaugural Chairperson Barry Chambers and I would like to take this opportunity in thanking the other retiring member Mick Huddy. At the same time I would like to welcome other new board members Michael Milatos and Rosemary Campbell. It is appropriate that I take this opportunity to thank my fellow board members for their contribution over the past 12 months and their welcome to me as a new member and Chairperson.

The Registrar has covered a number of relevant matters in his report which I will not repeat here. However it is important to highlight the maturity of the Scheme after 10 years and the steady growth in both financial assets and liabilities. As expected, long service benefits to construction workers who have worked in the Territory over the past 10 years will show a gradual increase over the coming years. This will be offset by new payments to NT Build and returns from its investments.

Finally I acknowledge the work and commitment of the Registrar and his staff over the past 12 months and thank them all for their dedication and successful outcomes in 2014-15.



MICHAEL MARTIN OAM  
Chairperson







# Registrar's Report

Legislative amendments, resulting from the changes to the Scheme announced by the Northern Territory Government in April 2014, were finalised during the 2014-15 reporting period.

The amendments involved clarification of the levy payment process for major projects costing in excess of \$1 billion, improvements to the Scheme's governance arrangements, and reducing the qualifying period for workers to 220 days. Work was also undertaken in consultation with industry to clarify the exemption to mining and exploration activity.

This reporting period also experienced the first full year impact of the reduction in the levy rate and the increase in the leviable threshold amount that came into effect in April 2014. The Scheme received a total levy income of \$2.4 million in 2014-15, representing a decrease of approximately \$1.4 million when compared to the 2013-14 year. Overall, the Scheme sustained a minor drop in net assets of approximately \$0.3 million over the 2014-15 financial year (down from the \$2.6 million increase achieved in 2013-14).

The growth in employer and worker participation in the Scheme during the year was significant, with total active registrations of 24 519 workers and 502 employers as at 30 June 2015 being achieved.

A total of 348 benefit claims (1454 since the Scheme commenced) were also processed during the year as more workers became eligible for benefit payments. 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 accelerate over the next few years as the Scheme continues to mature.

The maturing of the Scheme, the changes to the 220 day qualifying period and the steady increase in registrations of active workers, largely associated with the Inpex LNG project, also saw the estimated accumulated liabilities for the Scheme grow by \$6.9 million to approximately \$45.3 million as at 30 June 2015. This was offset by an increase in financial assets of \$6.6 million.

In response to the on-going economic volatility in financial markets and the cyclical nature of the construction industry, the Scheme's investment portfolio continued to be closely monitored and refined to ensure any adverse exposure of its investments was minimised. The Scheme's investment portfolio remains well positioned to meet its growing long term liabilities.

The introduction of a new business system, that will ensure ongoing administration costs are minimised as the Scheme grows, will be implemented during 2015-16.

This reporting period saw member Dick Guit reappointed to the Board for a further term and the replacements of inaugural Chairperson Barry Chambers and member Mick Huddy.

Along with the staff of NT Build, I would like to express our heartfelt appreciation for the support given by Barry Chambers and his significant contribution to the successful establishment and sound administration of the Scheme over the last ten years under his chairmanship. The support and contribution shown by Mick Huddy over the

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last five years he was a member is also acknowledged and appreciated.

The appointments of new Chairperson Michael Martin OAM along with new members Michael Milatos and Rosemary Campbell were also welcomed to the Board.

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



THEO TSIKOURIS  
Registrar

# Part 1: Introduction and Overview



## 2014-15 Highlights

- Finalised legislative amendments that gave effect to the NT Government's decision to; clarify the way the levy will be calculated for major construction projects of over \$1 billion; improve the Scheme's governance arrangements; and reduce the number of qualifying service days a worker needs to be credited with a year of long service leave credit from 260 days to 220 days.
- Changes in board membership which saw the replacement of inaugural Chairperson Barry Chambers and board member Mick Huddy with the appointments of new Chairperson Michael Martin OAM and new members Michael Milatos and Rosemary Campbell.
- Introduced policy guidance notes, in consultation with mining and exploration industry representatives, to assist in determining the nature of work undertaken by the resources industry that is likely to fall within the scope of leviable construction works.
- Supported the completion of the third formal actuarial review of the Scheme for the Minister.
- Sustained a minor drop in net assets of \$0.3 million over the year (down from the \$2.6 million increase achieved in 2013-14).
- Received approximately \$2.4 million in levy contributions (down from the \$3.8 million achieved in 2013-14).
- Completed business case on the feasibility of replacing primary business system to ensure that ongoing administration costs are minimised as the Scheme grows.
- Increases in both worker and employer registrations during the year. Total active registrations of 24 519 workers and 502 employers now with the Scheme.
- Made benefit payments to 348 workers who have been involved in the NT construction industry at a cost of approximately \$1.43 million.

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## 2015-16 Priorities

- Monitor and review the investment program to identify appropriate opportunities to support the ongoing financial viability of the Scheme.
- Closely monitor the Scheme's financial position and report on its ongoing financial status in the current environment.
- Finalise system enhancements to current business system to convert all worker's long service leave records to apply the new 220 days annual capping for all service recorded with NT Build.
- Finalise the development and implementation of a new business system aimed at minimising administration costs and supporting a suite of on-line and electronic business transaction services that will improve processing interaction between stakeholders and NT Build.
- Implement revised biannual reporting practices on worker's qualified service days to reduce the administrative burden on employers.
- 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.

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## 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 an independent chairperson, and five 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 2015 the Department of Business 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.
- Administration through a local office, with the support of an established scheme administrator (contract with Construction Industry Long Service Leave Board, South Australia).
- 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 and complete an employer return form twice a year advising NT Build of the number of days worked by all registered employees and any other information required by NT Build. The information provided by employers is used to update registered 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

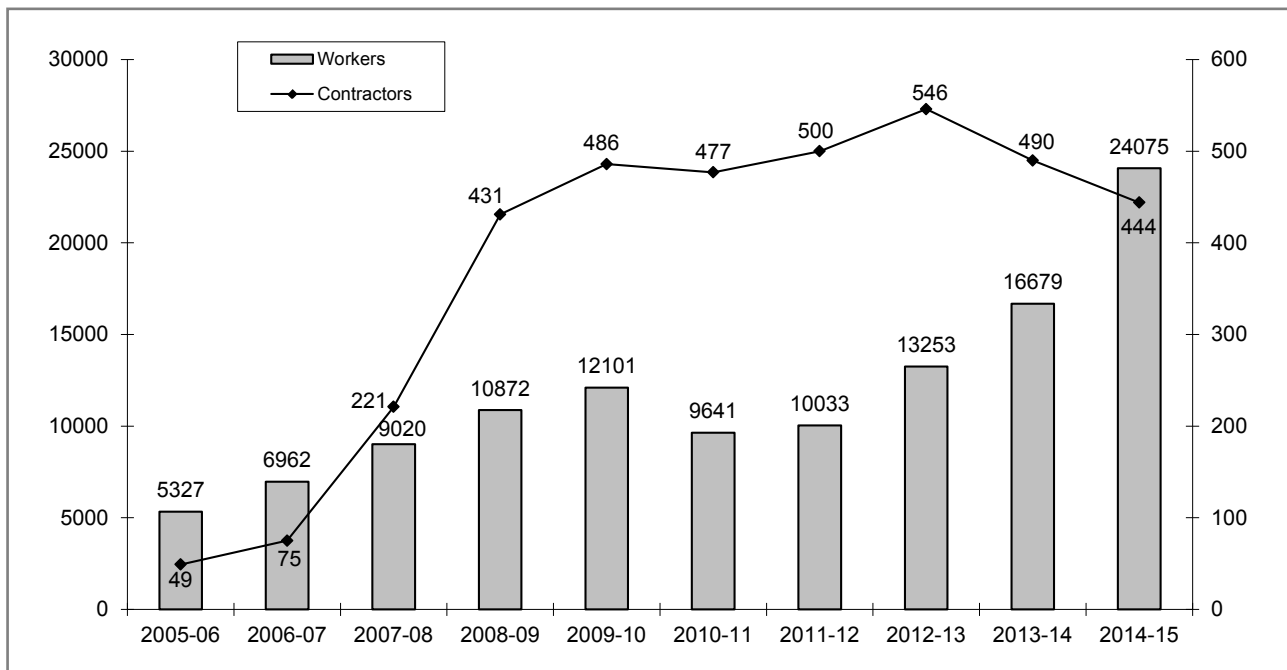
recorded by the scheme reflected a net increase of 7350 on the numbers for the previous reporting period. This variance consists of 7396 more employees and 46 less labour-only contractors.

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

Table 1.1: Total number of active worker registrations

Total Active Registrations	June 2011	June 2012	June 2013	June 2014	June 2015
Approved	10 118	10 533	13 799	17 169	24 519
Rejected	125	110	110	105	192

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 substantial increase in registrations during this reporting period but also by the significant overall number of workers deregistered from the Scheme as at 30 June 2015 - totalling 8997 workers (an increase of 1433 from the previous reporting period).

While these deregistered 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 2014-15 period was \$1233 per week.

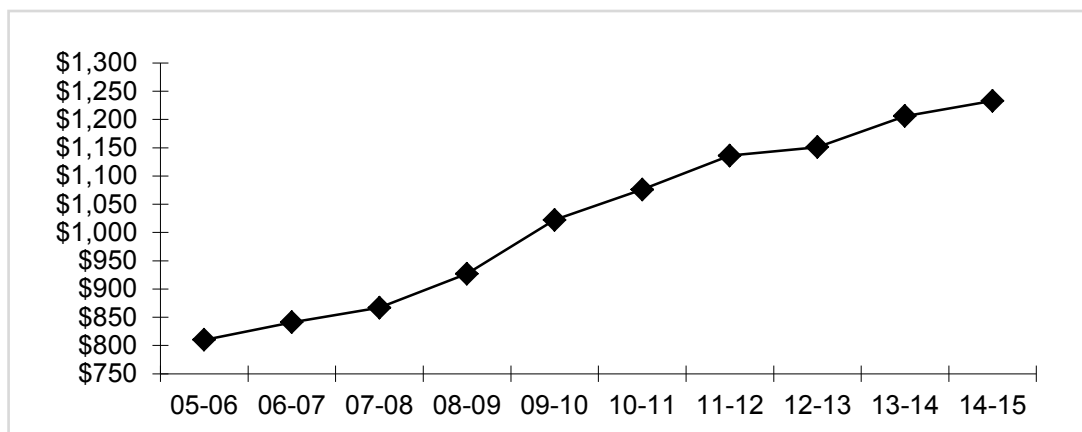
Table 1.2 and chart 1.2 below illustrates the annual movement in the benefit rate since the commencement of the Scheme.

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

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

Chart 1.2: Annual movement in benefit rate



However, 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 the 65 days 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 accessed after every additional accrual of 32.5 days long service leave credit (i.e. 1100 service days).

As the NT Build scheme reached its maturity on 1 July 2015, a total of 348 claims for long service leave benefits were paid during the 2014-15 reporting period. As reflected in the table 1.3 below, these claims resulted in a total gross benefit payments expense of approximately \$1.4 million in respect of work performed in the Northern Territory.

The number of claims processed during this reporting period increased by almost 52%, resulting in an increase cost to the Scheme of \$631 000 for benefits paid in comparison to the previous 2013-14 reporting period.

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

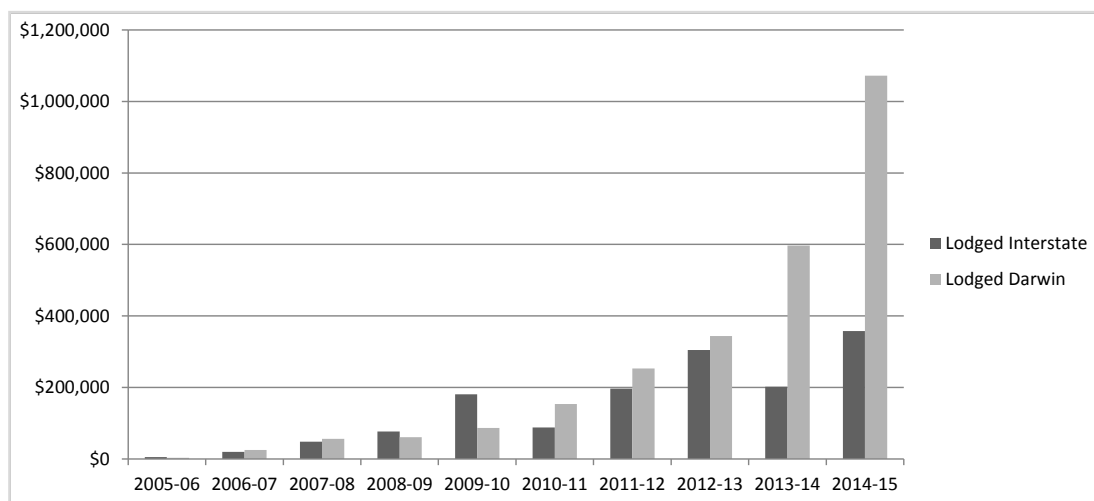
The ability to recognise service credits and make benefit payments before the Scheme reaches ten years of operation is a direct result of the Territory scheme being a party to the National Reciprocal Agreement.

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>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Lodged through interstate scheme	99	166	124	188
Lodged through NT Build	49	69	105	160
<b>Total claims lodged</b>	<b>148</b>	<b>235</b>	<b>229</b>	<b>348</b>

Chart 1.3: NT benefit payments by place of lodgement.



## Registration profile

Table 1.4: Age profile

	June 12	June 13	June 14	June 15
Average age	38	37	38	38
Oldest #	77	78	79	80
Youngest *	15	15	15	16

\*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 12	June 13	June 14	June 15
Total estimated service days	5.12M	6.38M	7.23M	9.57M

## Scheme demographic

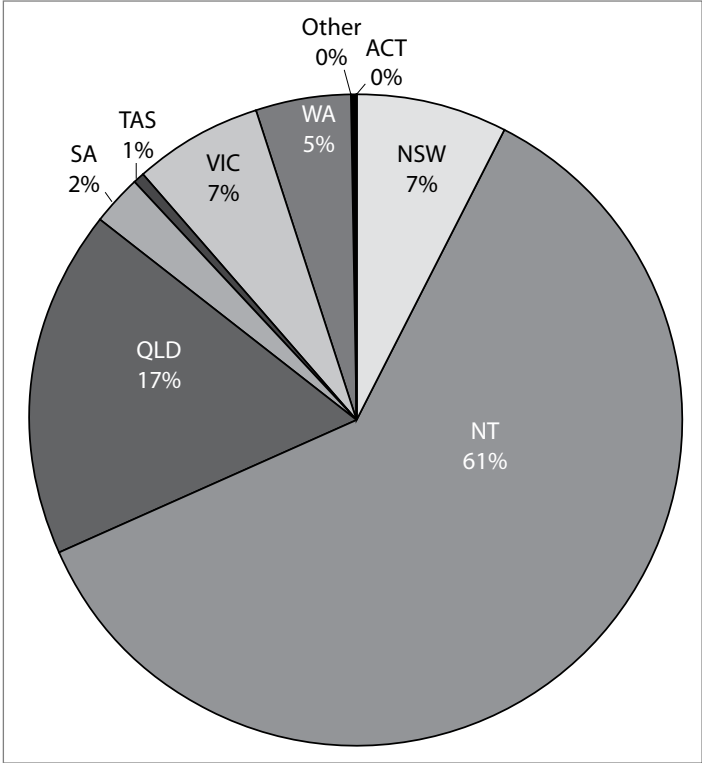
The continued success of the Scheme in terms of providing benefits to Northern Territory construction industry workers and contributing to the attraction of skilled workers to the Territory is evidenced by the following table and chart.

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

	2011-12	2012-13	2013-14	2014-15
ACT	11	17	21	27
NSW	903	1 066	1 210	1 829
NT	6 899	9 201	11 413	14 907
QLD	1 534	1 970	2 608	4 281
SA	286	336	355	551
TAS	35	108	108	142
VIC	471	601	733	1 616
WA	380	484	4702	1 159
Other	14	16	19	7
<b>Total</b>	<b>10 533</b>	<b>13 799</b>	<b>17 169</b>	<b>24 519</b>

Chart 1.4: Percentage of active workers by contact location, 2014-15



## **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.

One notice was issued under this provision during this current reporting period.

Table 1.7: Active employer registrations

	<b>June 2012</b>	<b>June 2013</b>	<b>June 2014</b>	<b>June 2015</b>
Registrations	312	395	468	502



## Levy payment and compliance

The levy rate has been reduced over time, with a reduction from 0.3% to 0.1% on 7 April 2014. The exemption threshold value was also increased from \$200,000 to \$1 million at that time. This 2014-15 reporting period represents the first full-year effect of these changes.

The table 1.8 below provides a summary comparison of total levy payments received from project developers. The Scheme's levy income during the 2014-15 period was down by \$1.5 million in comparison to the previous reporting period. The effect of the changes to the levy rate and leviable project threshold value has been the main contributing factor to a reduction in levy payments.

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, four notices were issued during the 2014-15 reporting period.

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

Table 1.8: Summary of contributions from levy payers

	June 2012	June 2013	June 2014	June 2015
Total levy income # (approximate)	\$12.0M	\$9.6M	\$3.9M	\$2.4M

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

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

YEAR	B/FWD	New Notices	Finalised	C/FWD
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 of debt recovery action

<b>YEAR</b>	<b>B/FWD</b>	<b>New Action</b>	<b>Finalised</b>	<b>C/FWD</b>
<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.

Although the Scheme completed its tenth year of operating on 30 June 2015, the liabilities of NT Build will in the main continue to be longer term. The accumulated funds of the Scheme are therefore invested to ensure 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, formerly called the Territory Insurance Office);  
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 was minimised.

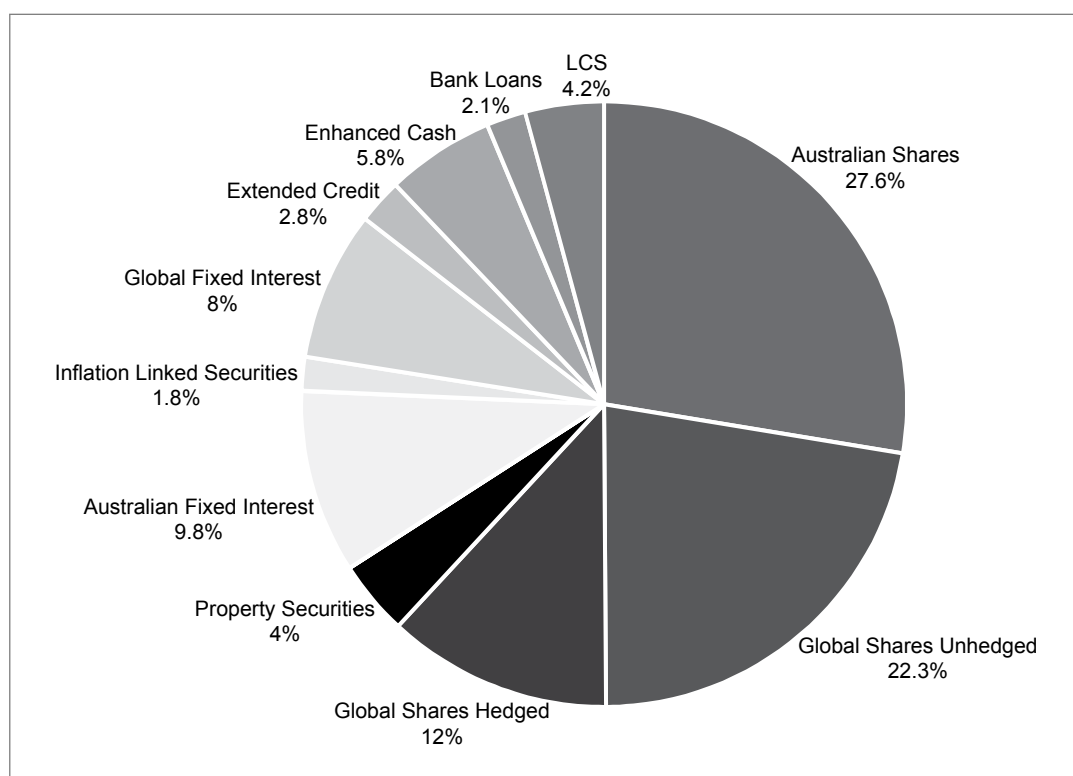
At the conclusion of the 2014-15 reporting period it is pleasing to note that the Scheme's investment portfolio remains well positioned to meet its growing long term liabilities.

Information regarding the performance of the Scheme's investments is provided in the Financial Statements included in this report. The following table 1.11 however 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 2015.

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

Fund Managers	Total funds invested as at 30 June 2014	Funds invested/ (redeemed) during 2014-15	Total funds invested as at 30 June 2015
MLC/JANA	\$51.0M	\$5.8M	\$56.8M
PCCU (formerlyTIO)	\$5.2M	(\$1.4M)	\$3.8M
MEB	\$5.2M	(\$3.1M)	\$2.1M
<b>TOTAL</b>	<b>\$61.4M</b>	<b>\$1.3M</b>	<b>\$62.7M</b>

Chart 1.5: Actual asset allocations of JANA managed portfolio - 30 June 2015



## 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 has been adopted for the 2014-15 assessment.

In performing the liability valuation for this 2014-15 reporting period the following key assumptions were made by the Actuary:

- A discount rate of 3%, determined based on the prevailing Commonwealth bond rate at 30 June 2015 as required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets;
- Benefit growth rate of 4.5% per annum, consistent with Department of Treasury and Finance's expectations for future salary growth in the Territory, and external forecasts;
- 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;
- About 25% of active member service credits are assumed to be abandoned;
- 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 1,100 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 40% 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 88,000 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 include;

- an increase in liability of approximately \$2.5 million due to the benefit change during 2014/15, from a 260 day year to a 220 day year; and
- a decrease in liability due to the more detailed modelling approach, the primary difference in the valuation being;
  - that significantly less service credits for inactive scheme members are assumed to result in a benefit payment, and
  - a quite large 2014/15 additional liability, associated partly with high levels of service reporting due to Inpex LNG project.

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). Further scheme experience over time will refine the assumptions made and provide greater certainty in valuation.

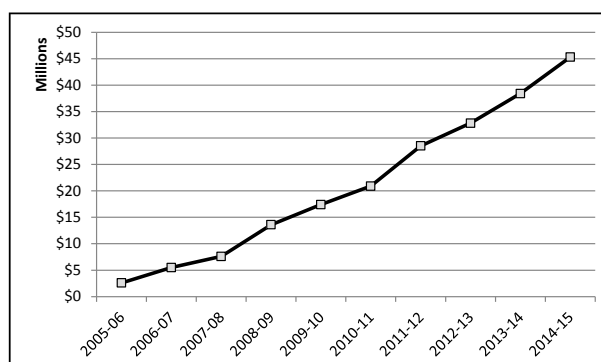
For accounting purposes as at 30 June 2015 the actuary recommended a liability of \$45.3 million for accrued long service leave benefits be adopted. This represents an increase of \$6.9 million from the 30 June 2014 estimate.

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

Table 1.12: Summary of accrued long service leave liability

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 \$45.3 million has been disclosed on the Statement of Financial Position of the Board as at 30 June 2015 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 the 2008-09 reporting period 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 the 2011-12 reporting period 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.

After the completion of the Scheme's ninth year of operation on 30 June 2014, a third actuarial review was conducted during this 2014-15 reporting period.

The report on the third review was presented to the Minister in January 2015 and subsequently tabled in the Legislative Assembly in February 2015.

The findings and recommendations noted by the actuary in the report are summarised below.

- A recommendation was made that, based on the Scheme's current surplus position, the levy rate (previously reduced by the NT Government from 0.3% to 0.1% in April 2014) remain unchanged at 0.1% of leviable activity for coming years.
- The rate of 0.1% of leviable activity is below the break-even levy rate and may not be sustainable in the longer term.
- The NT Build Board practice of linking the benefit rate to the Australian construction industry ordinary time earnings is appropriate.
- The investment objectives for NT Build are appropriate and consistent with the overall purpose of the Scheme.
- NT Build's intention to conduct an internal review of the completeness of service records for Inpex-related employers prior to finalisation of the Inpex project is appropriate.
- As NT Build registered workers typically have worked and will work in more than one state there is a moderate likelihood that even deregistered workers will claim on the Scheme in future. This is one of several areas where the NT Build experience is different to typical interstate scheme experience, and over which there remains considerable uncertainty.
- Levy income was originally the largest revenue item. However, the levy rate has now dropped substantially from the original rate of 0.5% of leviable activity to the current level of 0.1% of leviable activity, with an expansion of exemptions increasing from \$200,000 to \$1 million. This means that future

levy income will be much lower in than in the past. Consequently, as a result of the accumulation of assets to meet future liabilities, investment returns will now have increasing significance.

- The current high level of surplus is not desirable and it is appropriate that it be reduced over time via a levy rate below the break-even rate. However, 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.
- Projected levy income appears to be lower than the Scheme accruing costs, and so Scheme surplus will be eroded over coming years. This is not a concern in the short to medium term due to existence of a surplus currently, but in the longer term the levy rate may have to rise to ensure financial viability of the Scheme.
- Notwithstanding the practical approach being adopted by the NT Build Board to address a number of outstanding issues from the report on the review of the Scheme undertaken in 2013, it is recommended they should either:
  - continue to be pursued by NT Build, or
  - remain as outstanding issues, awaiting the next opportunity for broader legislative change within the Scheme.

Outstanding recommendations from the 2013 review of the Scheme referred to by the actuary include:

1. That section 28(4) of the CILSLB Act be amended to change the reporting period dates to 1 April to 30 September and 1 October to 31 March of each year.
  - The purpose of this proposed change is to reduce the administrative burden on employers during what are already busy times by allowing biannual reporting on workers service days to be submitted during less demanding periods.
2. That section 31 of the CILSLB Act (referring to the requirement to provide each registered employer with a certificate stating the names of each of their employees who are registered) be deleted.
  - No useful purpose or benefit for this reporting to employers has been identified.

The above are being implemented by administrative action.

In conclusion the actuary noted that the Scheme is generally working smoothly, with minor areas of reform or action underway at the moment. No significant additional areas requiring action were identified.

The next triennial review is anticipated following the period ending 30 June 2017.