



NT Build - portable long service leave

Annual Report 2018-19

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 2018-19 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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Table of contents

Letter to Minister	5
Chairperson's Report	7
Registrar's Report	9
Part 1: Introduction and overview	11
2018-19 Highlights	12
2019-20 Priorities	13
About the organisation	14
General overview – portable long service leave scheme	15
Key features	15
Workers	15
Employers	16
Long service levy	17
Statistical highlights	18
Workers	18
Employers	24
Levy payment and compliance	24
Debt recovery	26
Investment of funds	27
Actuarial advice	29
Long service leave liability	29
Section 91 actuarial review	31
Part 2: Operational governance	33
The Board	34
Functions and powers	34
Membership	34
Conducting business	35
The Office	37
Registrar	37
Staff	37
Organisation structure	38
Information management	39
Communication and marketing	40
Insurance and risk management	40
Part 3: Financial accountability	45
Index - Financial Statements for year ended 30 June 2019	47
Independent auditor's report	48
Board members' declaration	51
Statement of comprehensive income	52
Statement of financial position	53
Statement of changes in equity	54
Statement of cash flows	55
Notes to the financial statements	56

Charts

Chart 1.1	Active employee and labour-only contractor registrations	18
Chart 1.2	Annual movement in benefit rate	20
Chart 1.3	NT benefit payments by place of lodgement	21
Chart 1.4	Percentage of active workers by contact location, 2018-19	23
Chart 1.5	Actual asset allocations of JANA managed portfolio - 30 June 2019	28
Chart 1.6	Rate of long service leave liability accrual	30
Chart 2.1	Staffing FTE and profile as at 30 June 2019	37

Tables

Table 1.1	Total number of active worker registrations	18
Table 1.2	Benefit claims processed	21
Table 1.3	Age profile	22
Table 1.4	Days of service	22
Table 1.5	No. of active workers by contact location	22
Table 1.6	Active employer registrations	24
Table 1.7	Summary - levy payer contributions	24
Table 1.8	Summary - section 81(1)(b) action	25
Table 1.9	Summary - debt recovery action	26
Table 1.10	Summary - actual funds transferred / (redeemed) for investment	28
Table 1.11	Summary - accrued long service leave liability	30
Table 2.1	Summary - applications for reconsideration lodged - Section 84	36
Table 2.2	Summary of the audits undertaken	43



Letter to Minister

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

Dear Minister

RE: NT BUILD ANNUAL REPORT 2018-19

On behalf of the NT Build Board, I am pleased to present you with the fourteenth NT Build Annual Report, for the year ended 30 June 2019.

The report details the activities and achievements of NT Build during its fourteenth 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 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 1993* 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 ended 30 June 2019 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

13 November 2019

Chairperson's Report

During the past year the Scheme has been able to meet an increasing demand for benefits from construction workers who have been engaged in the Northern Territory and still maintain a solid equity position. This outcome is pleasing especially considering that this equity position has not recognised potential revenue from the Territory's major construction project. At the same time, the Scheme has paid out a significant amount of benefits from this project, which have not been funded to date.

In his Report, the Registrar highlights the significant number of benefits that have been processed and paid which demonstrates the maturity of the Scheme and the impact that the major LNG Gas Project has had on the Territory's construction industry. It is pleasing to note that after these record levels of benefit payments the Scheme still made a small surplus for the year.

As mentioned previously the investment of some \$84 million in funds management continues to be a major focus of the NT Build Board, which continues to assess and review our investment strategy in consultation with the Department of Treasury and Finance and our fund managers JANA. The Board regularly discusses and monitors the Scheme's solvency ratio and risk factors that will impact this ratio. Again, I am pleased to report that the strategy has allowed a solid equity position and the solvency ratio is very sound.

I take this opportunity to thank my fellow board members for their contribution over the past 12 months and their input into the strategic issues addressed by the Board during the year. Their input and commitment have again been critical.

The Registrar has covered several relevant matters in his report which I will not repeat here but recommend his Report. I have already mentioned the record number of benefit claims that have been processed and paid during the year and I acknowledge the significant contribution and commitment of all staff to ensure that payments were made within our timelines.

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 during the year.

Finally, I again pay tribute to the significant contribution and commitment of all NT Build staff during the year. Their dedication has been evidenced by successful outcomes over the 12 months.



MICHAEL MARTIN OAM
Chairperson

Registrar's Report

As a result of the Scheme's continued maturing, combined with the winding down of the construction phase of the major LNG Gas Plant project, the payment of benefits to workers significantly increased during 2018-19. A total of 1 817 benefit claims were processed during the year as more workers became eligible for benefit payments. This represented an increase of 655 claims in comparison to the 2017-18 numbers. 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 service of local construction industry workers.

Although the Scheme still recorded new registrations from workers, a significant decrease in active workers of approximately 54% as at 30 June 2019 has been recorded. This decrease is a result of both a data cleanse of records for worker's who had been inactive for a period of more than four years, and the progressive exodus of workers as major construction phases relating to the LNG Gas Plant project were completed.

The current active registration numbers are within the normal parameters of the Territory construction industry workforce, without the impact of a major LNG Gas Plant project. Registrations are expected to remain low due to the general downturn currently being experienced in the Northern Territory construction industry.

The Scheme received a total levy income of \$1.38 million in 2018-19, representing a reduction of approximately 17% (or \$0.28 million) when compared to the 2017-18 year.

At the end of this reporting period, the Scheme continues to hold a sustainable net asset position. The Scheme's equity of \$23.5 million recorded for this reporting period is slightly up from the \$23.1 million reported in 2017-18. The increase was predominately a result of a decrease in the liability valuation which decreased by \$4.22 million.

The volume of worker benefit payments and the associated complexity of national reciprocal payments had placed significant workload demands on the staff of NT Build. Notwithstanding this, staff responded to the challenge and I wish to take this opportunity to thank them for their dedication and hard work. I also wish to again acknowledge and thank the members of the Board for their continued support and guidance and look forward to working with them in the year ahead.



THEO TSIKOURIS
Registrar

Part 1: Introduction and Overview



2018-19 Highlights

- Made a records number of 1 817 benefit payments to workers who have been involved in the NT construction industry at a cost to the Scheme of approximately \$8.85 million (up from the 1 162 payments at a cost of \$4.86 million made in 2017-18).
- Implemented the changed Australian Taxation Office “Single Touch Payroll” processing practice from 1 July 2018 to provide a more streamlined, timely and efficient tax reporting regime.
- Monitored the Scheme’s financial position to ensure its ongoing financial sustainability in the current low levy (0.1%) and high threshold (\$1 million) environment.
- Monitored and reviewed the investment program to support the ongoing financial viability of the Scheme.
- Monitored and reviewed the operation of primary business systems to ensure operational savings, improvements and efficiencies are maximised.
- Monitored, reviewed and implement operational systems to maximise revenue collection and minimise administrative costs for NT Build and maximise stakeholders convenience.
- Actively encouraged the registration of eligible workers and relevant employers.
- Maintained a compliance audit regime to ensure Scheme levy revenue is maintained.
- Received approximately \$1.38 million in levy contributions (down from the \$1.66 million achieved in 2017-18).
- Recorded estimated total accumulated liabilities of \$62.13 million (a decrease of \$4.29 million in comparison to the 2017-18 period). Scheme’s assets continue to cover liabilities.
- Recorded an overall net increase in assets for the year of \$0.38 million (compared to the decrease of \$7.39 million recorded 2017-18).
- Decrease in active worker registrations and an increase in employer registrations during the year. Total active registrations of 14 054 workers and 588 employers recorded with the Scheme as at 30 June 2019.

2019-20 Priorities

- 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.
- Support the completion of the fifth formal triennial review of the Scheme by the appointed actuary.
- Facilitate the determination and payment of the major project excess levy to ensure receipt of sufficient funds to reimburse benefits already paid and cover future benefit entitlements for registered employees who worked on the project.
- 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 processes to maximise revenue collection and minimise administrative costs for NT Build and maximise stakeholders convenience.
- Actively encourage the registration of all eligible workers and relevant employers.
- Maintain a strong compliance audit regime to ensure Scheme levy revenue is maintained.
- Monitor staff and workload demands to ensure efficient and timely processing of the increasing number of benefit payments.

About the organisation

NT Build is a statutory corporation established by the *Construction Industry Long Service Leave and Benefits Act 2005* (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 1995* or the *Public Sector Employment and Management Act 1993* 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 2019 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 1981*.

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 is 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 penalties 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 significant decrease of 16 597 in comparison to the previous reporting period. This variance consists of 16 549 less employees and 48 less labour-only contractors.

This decrease is a result of both;

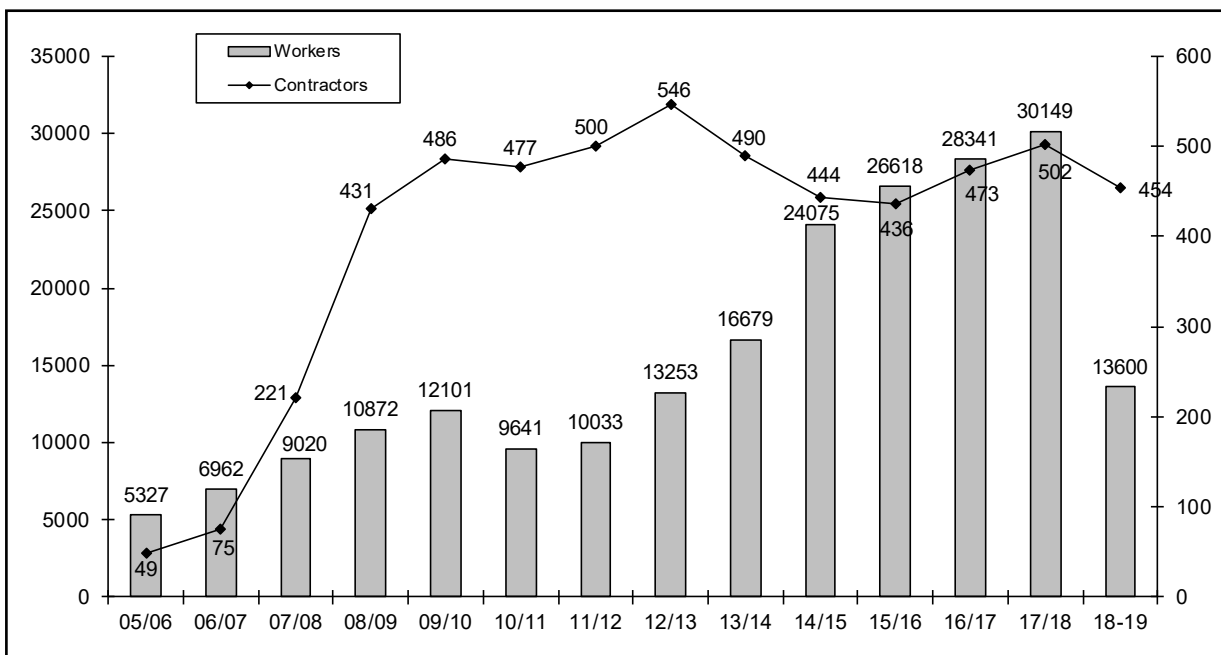
- a data cleanse of records for worker's who had been inactive for a period of more than four years,
- progressive exodus of workers as major construction phases relating to the LNG project were completed, and
- general downturn in construction activity in the Northern Territory.

Going forward, the current active registration numbers are within the 'norm' and more reflective of the Territory construction industry workforce, without the impact of the one-off major project.

Table 1.1: Total number of active worker registrations

Total Active Registrations	June 2016	June 2017	June 2018	June 2019
Approved	27 054	28 814	30 651	14 054

Chart 1.1: Active employee and labour-only contractor registrations



Section 13(1)(a) of the CILSLB Act requires the Registrar to deregister a person who has not been credited with any qualifying service for a continuous period of four years.

The first of this deregistration process occurred in September 2010, with on going automated deregistrations. However, a data cleanse of records for worker's who had been inactive for a period of more than four years resulted in a significant increase in the overall number of workers deregistered (inactive) from the Scheme as at 30 June 2019 - totalling 24 820 workers (a increase of 11 894 from the previous reporting period).

The number of deregistered workers also reflects the highly transient nature of the Northern Territory construction industry workforce.

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 have not registered.

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 2018-19 period was \$1325 per week.

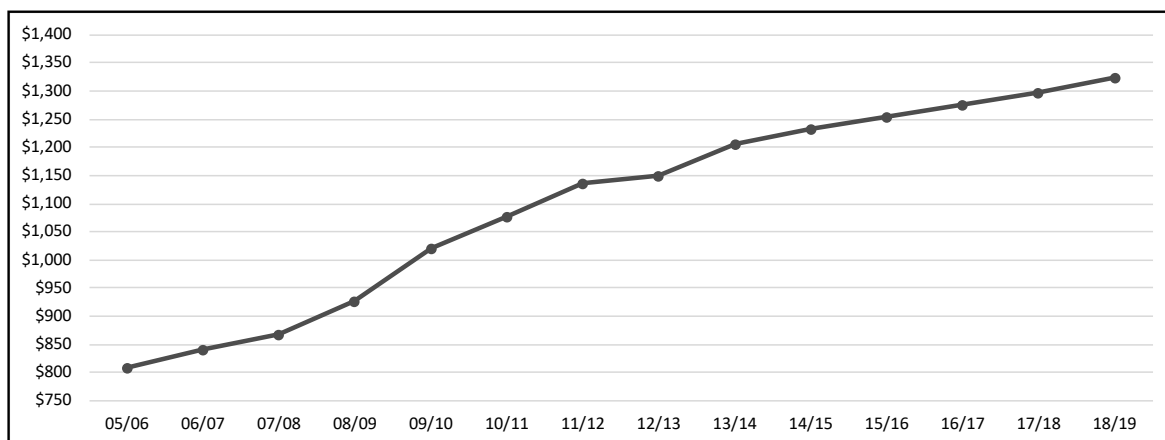
Chart 1.2 below illustrates the annual movement in the benefit rate since the commencement of the Scheme.

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.

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).

Chart 1.2: Annual movement in benefit rate



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 1.2 below, these claims resulted in a total expense of approximately \$8.85 million gross for benefit payments made in respect of work performed in the Northern Territory.

The number of claims processed during this reporting period increased by more than 56%, resulting in an increased cost to the Scheme of approximately \$4 million for benefits paid in comparison to the high of the 2017-18 reporting period.

A total of 6 065 claims have been paid since the Scheme commenced.

The ongoing payment of claims are expected to continue. However, future annual increases are not expected to match the anomaly of this year, which was predominately the result of the completion of major construction phases relating to the major LNG project.

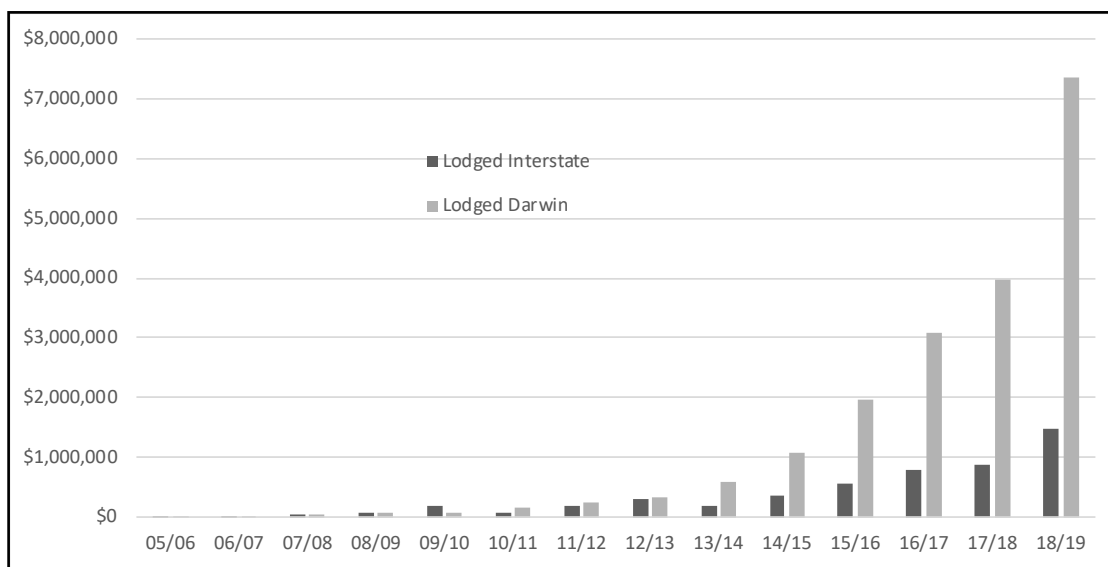
Being party to the National Reciprocal Agreement has also enabled NT Build to recognise service credits and make benefit payments both before the Scheme matured and before a worker achieves ten years of service within the Territory.

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 1.2 Benefit claims processed

Benefit Claims	2015-16	2016-17	2017-18	2018-19
Lodged through interstate scheme	270	346	365	582
Lodged through NT Build	408	608	797	1235
Total claims lodged	678	954	1162	1817

Chart 1.3: NT benefit payments by place of lodgement



Registration profile

Table 1.3: Age profile

	June 16	June 17	June 18	June 19
Average age	38	39	39	39
Oldest #	81	82	83	84
Youngest *	15	15	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 1.4: Days of service

	June 16	June 17	June 18	June 19
Total estimated service days	11.28M	14.07M	16.55M	18.30M

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.

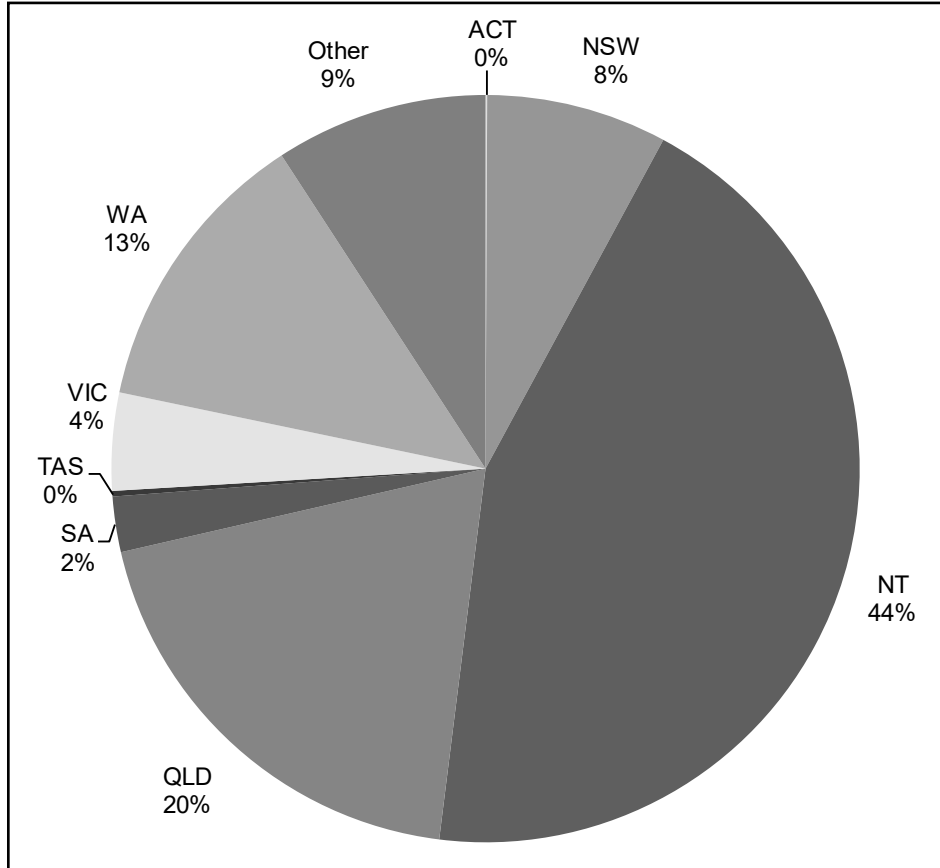
While these show that approximately 44% of the Scheme's active registered workers record a Territory contact address, the table and chart also helps to illustrate the transient nature and mobility of the workforce in the construction industry across state and territory borders.

Table 1.5: No. of active workers by contact location

	2015-16	2016-17	2017-18	2018-19
ACT	26	23	32	10
NSW	2 055	2 219	2 487	1 098
NT	15 576	14 525	14 189	6 197
QLD	5 433	5 879	6 060	2 731
SA	610	669	713	337
TAS	147	153	160	34
VIC	1 270	1 435	1 605	594
WA	1 928	2 248	3 156	1 763
Other*	9	1 663	2 249	1 290
Total	27 054	28 814	30 651	14 054

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

Chart 1.4: Percentage of active workers by contact location, 2018-19



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 1.6: Active employer registrations

	June 2016	June 2017	June 2018	June 2019
Employers	523	554	557	588

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

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

No notices were issued under this provision during 2018-19 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 and mining and works.

The table 1.7 below provides a summary comparison of total levy payments received from project developers.

Table 1.7: Summary - levy payer contributions

	June 2016	June 2017	June 2018	June 2019
Total levy income # (approx.)	\$3.7M	\$2.4M	\$1.6M	\$1.4M

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

The Scheme's levy income during the 2018-19 period decreased by approximately \$0.28 million in comparison to the previous reporting period.

The maturity of the Scheme, combined with the winding down of the construction phase of the major LNG Gas Plant project, also saw the payment of benefits to workers significantly increase during 2018-19, with the value of payments exceeding the amount of levy revenue by approximately 541%. This, along with the downturn in the NT construction sector and the current levy collection structure (of 0.1% on projects over \$1 million and significant exemptions for the housing and resources sectors), 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 the 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 1.8 below, one new notice was issued during the 2018-19 reporting period.

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

Table 1.8: Summary - section 81(1)(b) action

YEAR	B/FWD	New Notices	Finalised	C/FWD
2018-19	2	1	3	-
2017-18	-	2	-	2
2016-17	-	1	1	-
2015-16	1	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 1.9: Summary - debt recovery action

YEAR	B/FWD	New Action	Finalised	C/FWD
2018-19	2	-	2	-
2017-18	1	1	-	2
2016-17	1	2	2	1
2015-16	-	2	1	1

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 fourteenth year of operating on 30 June 2019. 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 2018-19, with the value exceeding the amount of levy revenue received by approximately 541%.

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

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.

During the 2018-19 period, the Board made the decision to reinvest 'special' JANA quarterly investment income distribution amounts. However, to support cash flow, the practice of having all standard quarterly investment income distribution amounts deposited into the Scheme's operational bank account and not reinvested with JANA continued.

This practice meant that during this reporting period \$4 million was reinvested with JANA, while \$3.2 million was subsequently withdrawn to support cash flow. In addition, the remaining fixed term cash deposit fund of \$2.1 million (plus accrued interest) was redeemed on maturity.

At the conclusion of the 2018-19 reporting period it is pleasing to note that the Scheme's assets continue to cover liabilities.

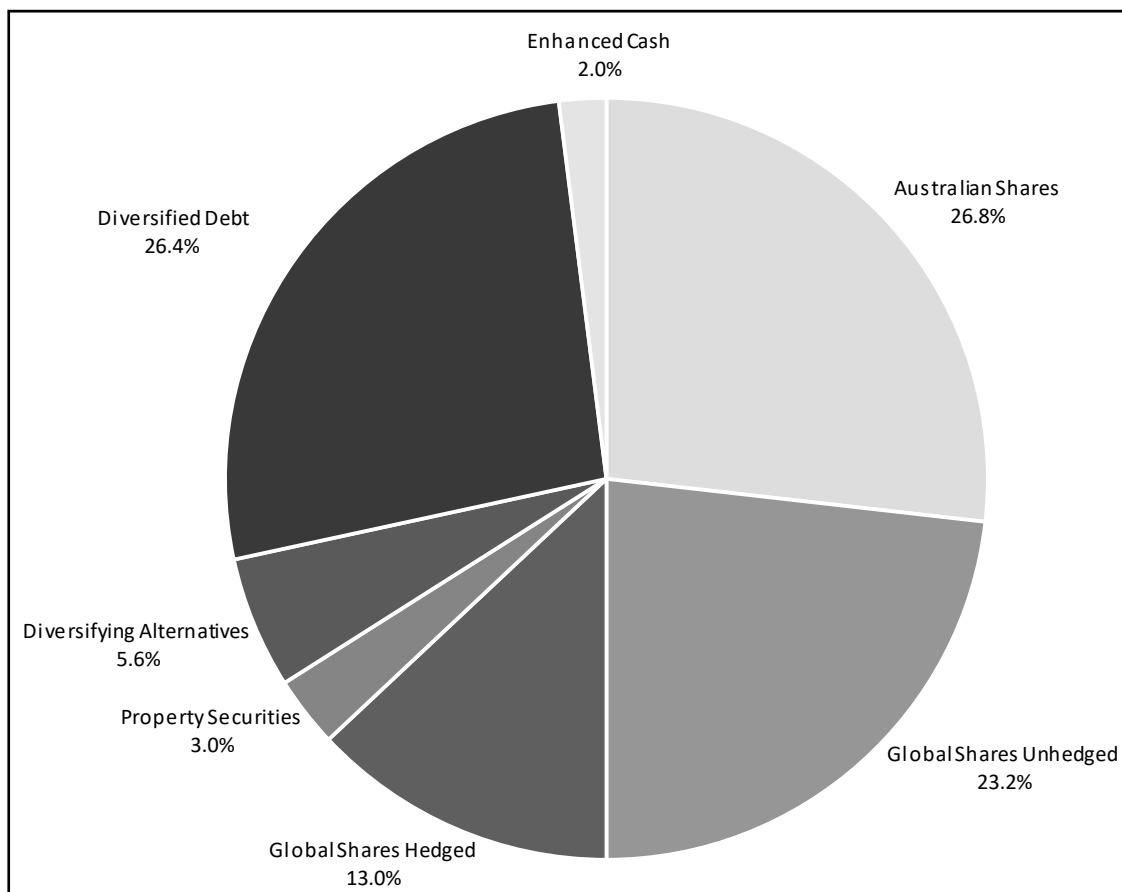
Information regarding the performance of the Scheme's investments is provided in the Financial Statements included in this report.

The following table 1.10 reflects a summary of the actual fund amounts either redeemed from or 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 2019.

Table 1.10: Summary - actual funds transferred / (redeemed) for investment

Fund Managers	Total funds invested as at 30 June 2018	Net Funds invested/ (redeemed) during 2018-19	Total funds invested as at 30 June 2019
MLC/JANA	\$63.8M	\$0.8M	\$64.6M
PCCU	\$2.1M	(\$2.1M)	\$0.0M
TOTAL	\$65.9M	(\$1.3M)	\$64.6M

Chart 1.5: Actual asset allocations of JANA managed portfolio - 30 June 2019



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.

The 2016-17 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.

Initial year's liability estimates had been calculated using a risk-free discount rate based on the yield on Commonwealth bonds. However in 2016-17 an asset-based discount rate approach was adopted for that and future financial reporting periods for valuing NT Build Scheme liabilities. This change saw a large one-off impact on the liability valuation for 2017 as reflected in Chart 1.6 of the following page.

The key assumptions made by the Actuary in performing the liability valuation for this 2018-19 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% per annum;
- No increase in benefit rate from 1 July 2019 and no further increase for 2019-20, plus assumed continued lower growth in the medium terms of 2.5% in 2020-21;
- 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 2019.

Other elements such as the rate of claiming benefits in service are as 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. The liability estimate is therefore moderately sensitive to the assumption that 30% of inactive members will reactivate.

The most significant elements in the revised valuation included:

- a lower benefit growth rate than assumed;
- higher number of benefit payments made; and
- a lower accruing liability for service days in 2018-19 than recent years.

For accounting purposes as at 30 June 2019 the actuary recommended a liability of \$61.952 million for accrued long service leave benefits be adopted. As a result of applying the asset based discount rate when valuing the liability in this reporting period, along with adjustments to other actuarial assumptions, that valuation represents a net decrease of \$4.22 million from the previous 2017-18 estimate.

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

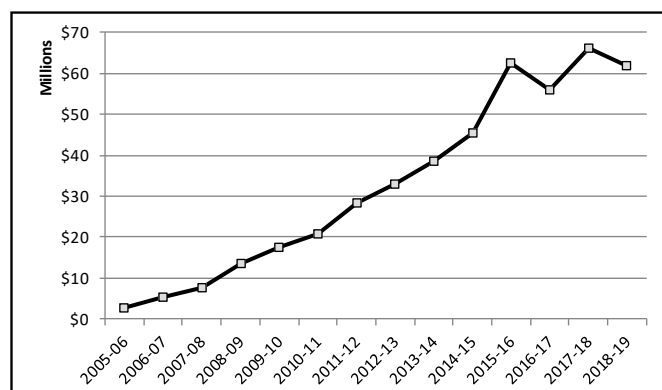
Accordingly, the provision of \$61.952 million has been disclosed on the Statement of Financial Position of the Board as at 30 June 2019 included in this report.

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

Table 1.11: Summary - accrued long service leave liability

2018-19	\$62.0M
2017-18	\$66.2M
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



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.

Previous reviews

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

- 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 Minister:

- 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 Minister:

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

The report on the third review also noted that:

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

A fourth triennial review was undertaken during the 2016-17 for period ending 31 December 2016 and did not result in the Minister needing to take any immediate action. However, key findings from this review indicated that the:

- Scheme's moderate surplus is expected to decline in the next two years (with a chance it 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;

-
- 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
 - 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.

The NT Build Board has initiated a heightened level of monitoring and oversight and have undertaken to provide advice to the Minister 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.