NT Build - portable long service leave
Annual Report 2019-20

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 2019-20 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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Letter to Minister

The Hon Nicole Manison MLA
Minister for Mining and Industry
Legislative Assembly of the Northern Territory
Darwin NT 0800

Dear Minister

RE: NT BUILD ANNUAL REPORT 2019-20

On behalf of the NT Build Board, I am pleased to present you with the fifteenth NT Build Annual Report, for the year ended 30 June 2020.

The report details the activities and achievements of NT Build during its fifteenth 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 2020 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

28 October 2020

Chairperson's Report

During the past year the Scheme has experienced the challenges of the COVID-19 pandemic and responded to these by taking a number of actions by both the Board and Management level.

The Board was very concerned with the impact of COVID on its funds under management and its solvency ratio. The Board held a number of special meetings to develop a strategy to monitor its financial position and solvency ratio. The Board were also provided with weekly reports from Management and I am pleased to report that while the Scheme did experience volatility in financial markets, its financial position has always been sustainable with strong solvency. I thank Management as well as our implemented consultants and our actuary for their vigilance and timely reporting that is still required under the COVID environment.

As the Registrar has commented, NT Build's financial position has been significantly improved in this financial year, as we were able to recognise the final payment of $19.5M from Inpex for the liability created by the workforce on the LNG Project. The funds have now been paid since the end of the financial year, and this concludes the enormous amount of work undertaken by NT Build to secure the payment. On behalf of the Board, I thank the Registrar and all of his team who have worked so diligently over 8 years to ensure that the necessary records were available for the actuary to assess the liability from such a large LNG construction project.

The Board recognises that the LNG project is the first completed under the major project provisions of the CILSLB Act. The Board will review the process to identify any possible improvements and advise the Minister of its findings.

As mentioned previously the investment of some $80 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 manager JANA. The Board regularly discusses and monitors the Scheme's solvency ratio and risk factors that will impact this ratio. COVID required special focus on our investment as I mentioned earlier. However, before COVID, the Board was very active in assessing and reviewing its investment strategy.

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 especially their response to the challenges of COVID. Each board members' input and commitment has again been critical to our effective response.

The Registrar has covered several relevant matters in his report which I will not repeat here but I recommend his Report. The Registrar continues to work closely with the Board and provides an effective level of support to the Board. On behalf of the Board, I thank him for his support, diligence and commitment during the year and the manner in which he was able to keep the Board advised on the response to COVID.

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

MICHAEL MARTIN OAM
Chairperson

Registrar’s Report

Due to the Scheme continuing to mature, more workers became eligible for benefit payments. This was also largely due to the completion of the construction phase of the major LNG Gas Plant project. A total of 1459 benefit claims were processed during the year. This represented a decrease of 358 claims in comparison to the 2018-19 numbers. Eligibility for paying these benefits was possible in large 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, an overall decrease in active workers of approximately 18% as at 30 June 2020 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 exodus of workers following the completion of the construction phase of the LNG Gas Plant project.

The current active registration numbers are within the normal historical parameters of the Territory construction industry workforce. Registrations are expected to remain at these levels due to the general economic downturn that is affecting the Northern Territory construction industry.

The Scheme recorded a total levy income of $21.61 million in 2019-20. This represented a significant increase in comparison to the $1.38 million) recorded in 2018-19. The amount of $2.111 million related to general construction activity, while $19.499 million related to a final levy payment for the major LNG Gas Plant project. This levy payment will reimburse the Scheme for benefits already paid and cover future benefit entitlements for the large number of employees who worked on this project. This significant levy contribution is also reflected in the Scheme’s equity of $42.3 million recorded for this reporting period (up from the $23.5 million reported in 2018-19).

In comparison to the 2018-19 period, the liability valuation for 2019-20 also decreased $7.524 million, primarily as a result of the amount of benefit payments made to workers.

At the end of this reporting period, the Scheme continues to hold a sustainable net asset position.

This reporting period was also significant due to the impact of COVID-19. The pandemic required an examination of the Scheme’s operating systems and the need for staff to work remotely. I am pleased to advise that, whilst there were some teething issues, NT Build is well placed to continue operations should the need to operate remotely re-emerge.

I wish to thank staff for their continued commitment. The achievements made this year would not have been possible without the extraordinary effort of our small dedicated team. I also wish to again acknowledge and thank the members of the Board for their continued support and guidance.

THEO TSIKOURIS
Registrar

Part 1: Introduction and Overview

2019-20 Highlights

- Made 1459 benefit payments to workers who have been involved in the NT construction industry at a cost to the Scheme of approximately $7.3 million (down from the 1817 payments at a cost of $8.85 million made in 2018-19).

- Monitored the Scheme's financial position to ensure its ongoing financial sustainability in the current low levy (0.1%) and high project value threshold ($1 million) environment.

- Supported the completion of the fifth formal triennial review of the Scheme by the appointed actuary, resulting in the retention of the below break-even levy rate of 0.1% for the medium term.

- Facilitated the Ministerial determination of the major project excess levy to ensure the payment of sufficient funds to reimburse benefits already paid and cover future benefit entitlements for registered employees who worked on the major project.

- Recorded approximately $21.61 million in contributions from levy payers, including $19.499 million relating to the major project, (up from the $1.38 million reported in 2018-19).

- Recorded estimated total accumulated liabilities of $55.40 million (a decrease of $6.73 million in comparison to the 2018-19 period). Scheme's assets continue to cover liabilities.

- Actively encouraged the registration of eligible workers and relevant employers.

- Recorded an overall increase in net assets for the year of $18.80 million (compared to the increase of $0.38 million recorded 2018-19).

- Trialled, reviewed and refined remote working capabilities, during the early stages of the COVID-19 pandemic phase, to support safety of staff and clients and ensure ongoing delivery of services were achieved.

- 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.

- Decrease in active worker registrations and an increase in employer registrations during the year. Total active registrations of 11 504 workers and 631 employers recorded with the Scheme as at 30 June 2020.

- Monitored staff and workload demands to ensure efficient and timely processing of the high number of benefit claim requests.

2020-21 Priorities

- Closely monitor the Scheme's financial position and report on its ongoing financial status in the current low levy (0.1%) and high project value threshold ($1 million) environment.
- Continue to monitor and review the investment program to identify appropriate opportunities to support the ongoing financial viability of the Scheme.
- Continue to monitor and review the operation of primary business systems to ensure operational savings, improvements and efficiencies are maximised.
- Continue to monitor, review and implement operational 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.
- Reinstate strong compliance audit regime, following recovery from the COVID-19 pandemic phase, 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 2020 the [1]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 [1]Minister.

[1] Following the General Election held on 22 August 2020, a new Administrative Arrangements Order (AAO) was issued on 8 September 2020 announcing changes to the structure of the public service. Under the latest AAO principle responsibility for the general administration of the CILSLB Act was allocated to the newly formed Department of Industry, Tourism and Trade. While the Minister for Business and Innovation was the responsible Minister as at 30 June 2020, this report has been submitted to the Minister for Mining and Industry as the current Minister responsible for the Scheme.

General overview – portable long service leave scheme

Key features

The Scheme enables workers in the construction industry to qualify for long service leave based on their service in the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry and continue to accumulate long service leave benefits.

Some key features of this Scheme include:

- Long service leave coverage consistent with interstate arrangements. (The Northern Territory Government is party to the reciprocal arrangements agreement between all States and the Australian Capital Territory.)

- Benefits consistent with current building and construction industry and NT long service leave standards.

- The Scheme is funded through a levy determined by the Minister.

- Maintenance of a register recording the number of service days worked by each registered worker within the construction industry in the Northern Territory.

- A statute based scheme, governed by a board consisting of an 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 continued decrease of 2550 workers in comparison to the previous reporting period. This variance consists of 2265 less employees and 15 more labour-only contractors.

This decrease is a result of both;

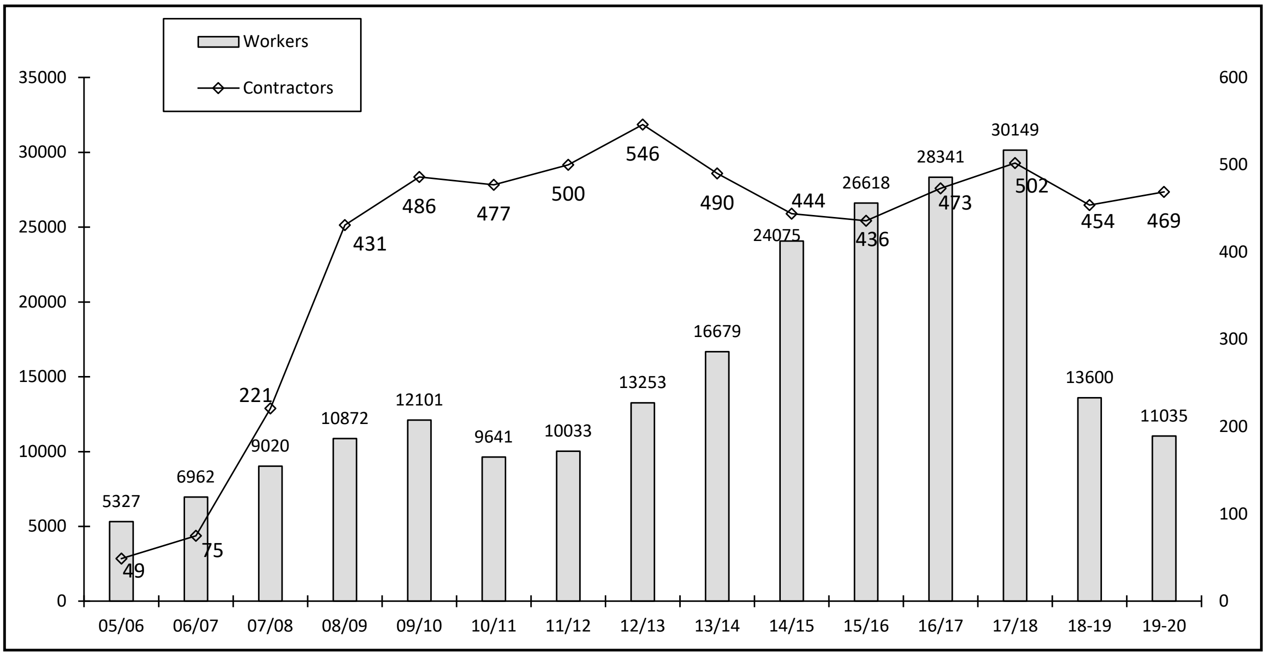
- a data cleanse of records for worker's who had been inactive for a period of more than four years,
- progressive exodus of workers as major construction phases relating to the LNG project were completed, and
- general downturn in construction activity in the Northern Territory.

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 2017	June 2018	June 2019	June 2020
Approved	28 814	30 651	14 054	11 504

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.

A data cleanse project undertaken in 2018-19, also resulted in a significant increase in the overall number of worker's who had been inactive for a period of more than four years being deregistered.

In addition, section 13 of the CILSLB Act also provides for the deregistration of a worker who ceases to carryout construction work, retires or dies.

As at 30 June 2020 the Scheme recorded a total of 29016 deregistered workers (an increase of 4196 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 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 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.

A review of the benefit rate to be applied for the 2019-20 period, using the standard methodology, resulted in a negative movement in the payment rate. The Board, however, decided in this instance to retained at the previous years rate of $1325 per week for a further twelve months.

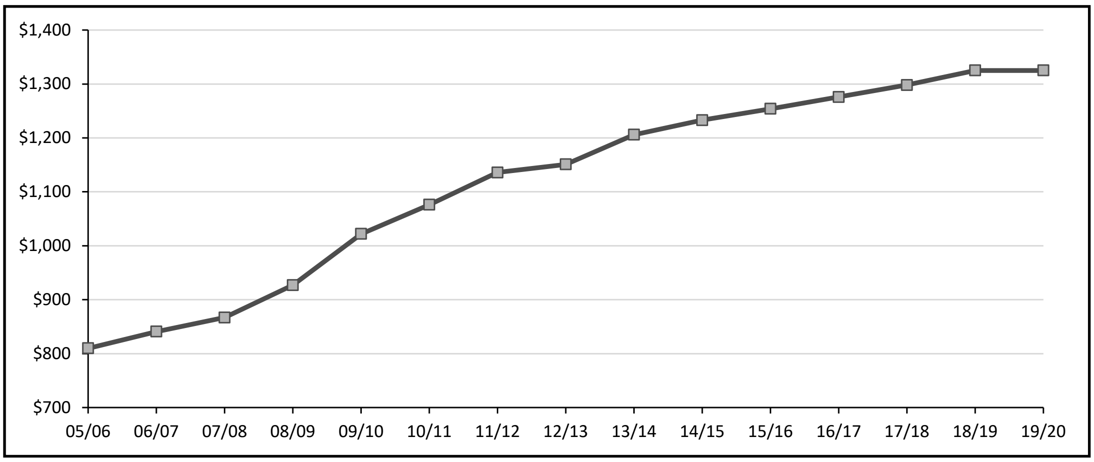
Chart 1.2 below illustrates the annual movement in the benefit rate since the commencement of the Scheme.

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 $7.3 million gross for benefit payments made in respect of work performed in the Northern Territory.

The number of claims processed during this reporting period decreased by 19.7%, resulting in a decreased cost to the Scheme of approximately $1.53 million for benefits paid in comparison to the high of the 2018-19 reporting period.

A total of 7524 claims have been paid since the Scheme commenced.

Future annual totals are, however, not expected to match the high of the previous year, which was predominately the result of the completion of major construction phases relating to the major LNG project.

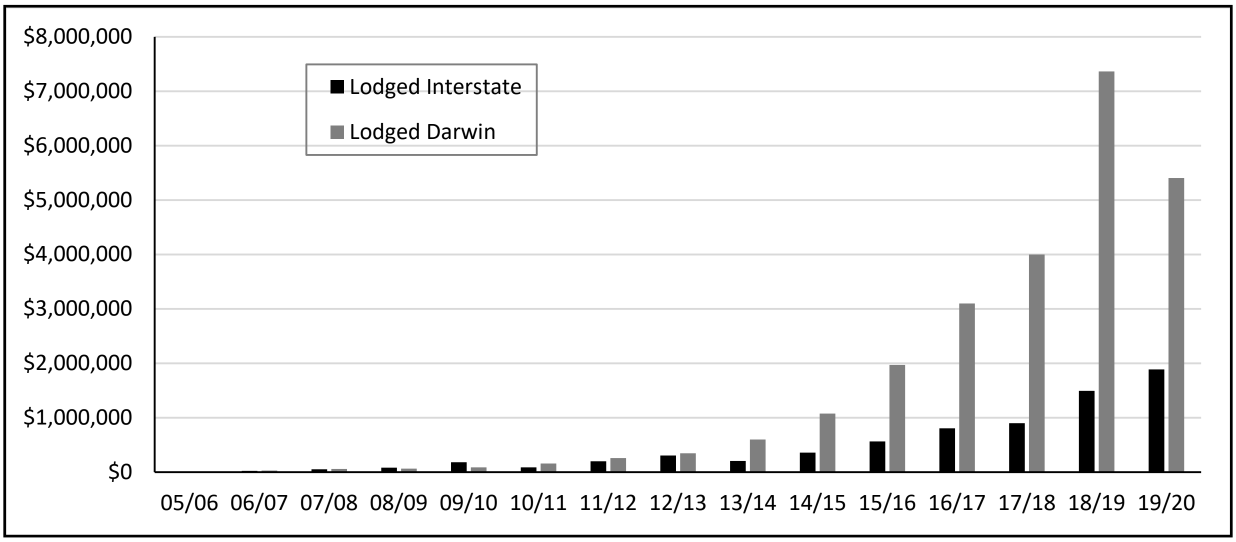
Being party to the National Reciprocal Agreement has also enabled NT Build to recognise service credits and make benefit payments both before the Scheme matured and before a worker achieves ten years of service within the Territory.

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	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Lodged through interstate scheme	346	365	582	676
Lodged through NT Build	608	797	1235	783
Total claims lodged	**954**	**1162**	**1817**	**1459**

Chart 1.3: NT benefit payments by place of lodgement



Registration profile

Table 1.3: Age profile

	June 17	June 18	June 19	June 20
Average age	39	39	39	39
Oldest #	82	83	84	84
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 1.4: Days of service

	June 17	June 18	June 19	June 20
Total estimated service days	14.07M	16.55M	18.30M	19.26M

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.

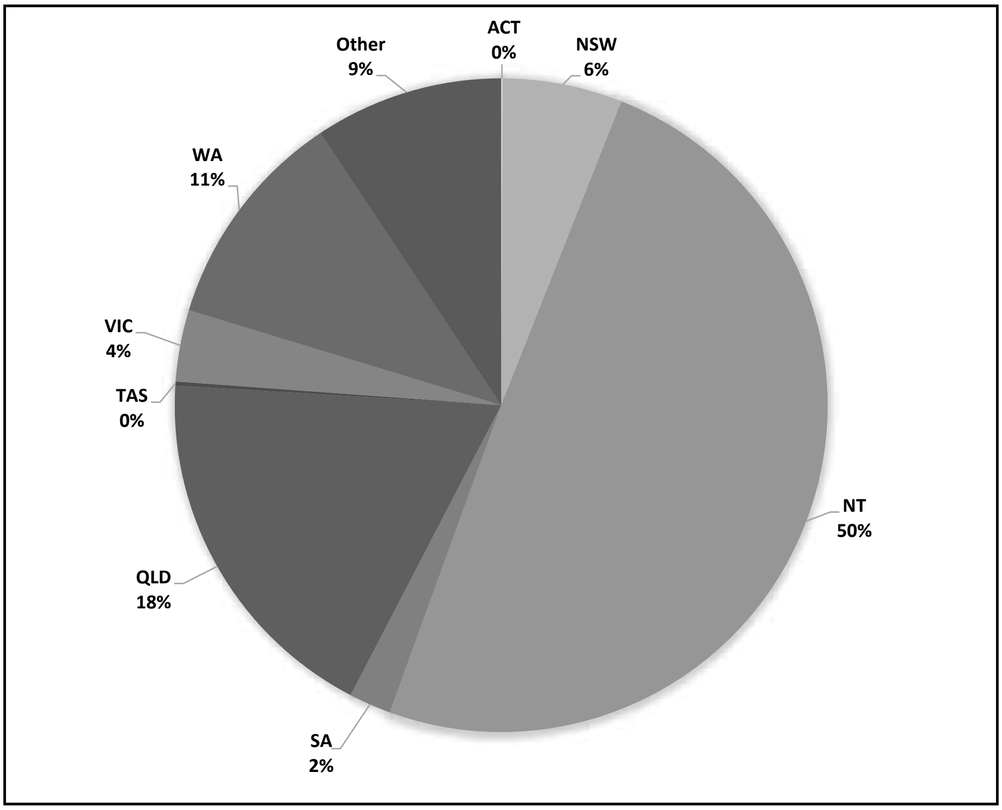
While these show that approximately 49.5% of the Scheme's active registered workers record a Territory contact address, the table and chart also helps to illustrate the transient nature and mobility of the workforce in the construction industry across state and territory borders.

Table 1.5: No. of active workers by contact location

	2016-17	**2017-18**	**2018-19**	**2019-20**
ACT	23	32	10	8
NSW	2 219	2 487	1 098	683
NT	14 525	14 189	6 197	5 699
QLD	5 879	6 060	2 731	2 108
SA	669	713	337	240
TAS	153	160	34	23
VIC	1 435	1 605	594	407
WA	2 248	3 156	1 763	1 261
Other*	1 663	2 249	1 290	1 075
Total	**28 814**	**30 651**	**14 054**	**11 504**

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

Chart 1.4: Percentage of active workers by contact location, 2019-20



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 2017	June 2018	June 2019	June 2020
Employers	554	557	588	631

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 2019-20 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.

Under section 33(4) of the CILSLB Act the Minister is to determine the levy percentage on construction projects in excess of $1 billion. During this reporting period one project of such value was completed, requiring this provision of the CILSLB Act to be applied for the first time. A determination of a project specific percentage rate for the excess levy amount of the major project was made, resulting in a levy contribution of $19.499 million. This levy will reimburse the Scheme for benefits already paid and cover future benefit entitlements for registered employees who worked on that major project.

The Scheme's levy income during the 2019-20 period therefore reflects a significant increase of approximately $20.2 million in comparison to the previous reporting period.

Table 1.7 below provides a summary comparison of total levy contributions recorded from project developers.

Table 1.7: Summary - levy payer contributions

	June 2017	June 2018	June 2019	June 2020
Total levy income # (approx.)	$2.4M	$1.6M	$1.4M	$21.6M

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

The maturity of the Scheme, combined with the completion of the construction phase of the major LNG project, also saw the significant number of benefits paid to workers during 2019-20.

Excluding the anomaly of the one off significant levy payment recorded this year, the trend of benefit payments exceeding levy revenue is expected to continue in future years. This trend is largely due to 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).

NT Build has continued to enjoy a high level of compliance by project developers with the assistance of the office, and especially the activities of 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, no notices were issued during the 2019-20 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
2019-20	-	-	-	-
2018-19	2	1	3	-
2017-18	-	2	-	2
2016-17	-	1	1	-

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
2019-20	-	-	-	-
2018-19	2	-	2	-
2017-18	1	1	-	2
2016-17	1	2	2	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 fifteenth year of operating on 30 June 2020. While the liabilities of NT Build will in the main continue to be longer term, the payment of benefits to workers continued to remain high during 2019-20.

Excluding the anomaly of the one off significant levy payment recorded this year, going forward, the trend of benefit payments exceeding levy revenue is expected to continue in future years. This trend is largely due to 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). This 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 2019-20 period, the Board continued the practice of having all standard quarterly investment income distribution amounts deposited into the Scheme's operational bank account and not reinvested with JANA to support cash flow.

This practice meant that during this reporting period $6 million was redeemed from JANA to support the Scheme's monthly cash flow.

At the conclusion of the 2019-20 reporting period, the Scheme's assets continue to cover liabilities.

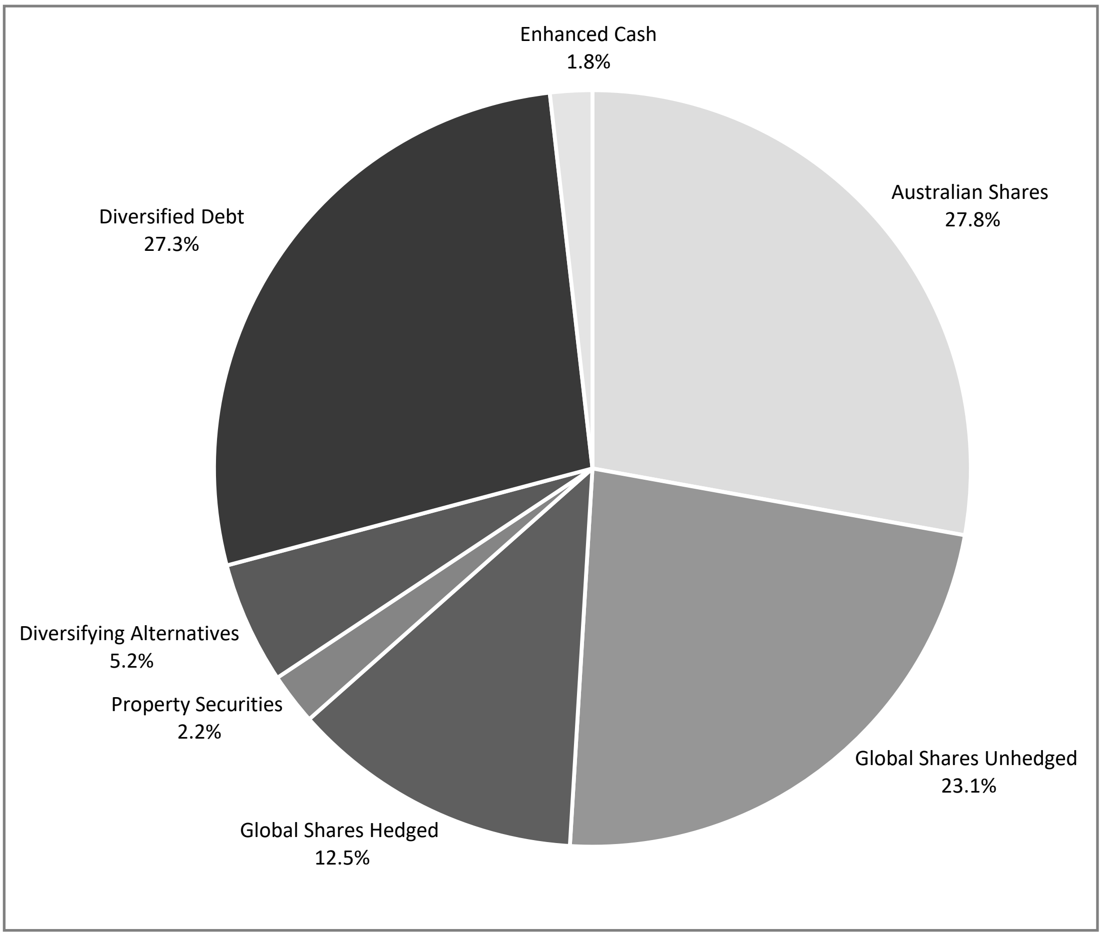
While the following table 1.10 reflects a summary of the actual amount of money either redeemed from or transferred to the fund managers for investment, information regarding the performance of the Scheme's investments is provided in the Financial Statements included in Part 3 of this Report.

Chart 1.5 below illustrates the actual asset allocations of the Scheme's JANA managed portfolio as at 30 June 2020.

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

Fund Managers	Total funds invested as at 30 June 2019	Net Funds invested/ (redeemed) during 2019-20	Total funds invested as at 30 June 2020
MLC/JANA	$64.6M	($6.0M)	$58.6M

Chart 1.5: Actual asset allocations of JANA managed portfolio - 30 June 2020



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 had an 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 2019-20 reporting period are covered in detail in the Notes to the financial statements included in Part 3 of this Report.

Taking those assumptions into account, the greatest unknowns in the liability valuation are those regarding member movements (exit rates and reactivation rates).

Other elements such as unreported service and 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.

For accounting purposes as at 30 June 2020 the actuary recommended a liability of $54.428 million for accrued long service leave benefits be adopted.

This valuation represents a net decrease of $7.524 million from the previous 2018-19 estimate.

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

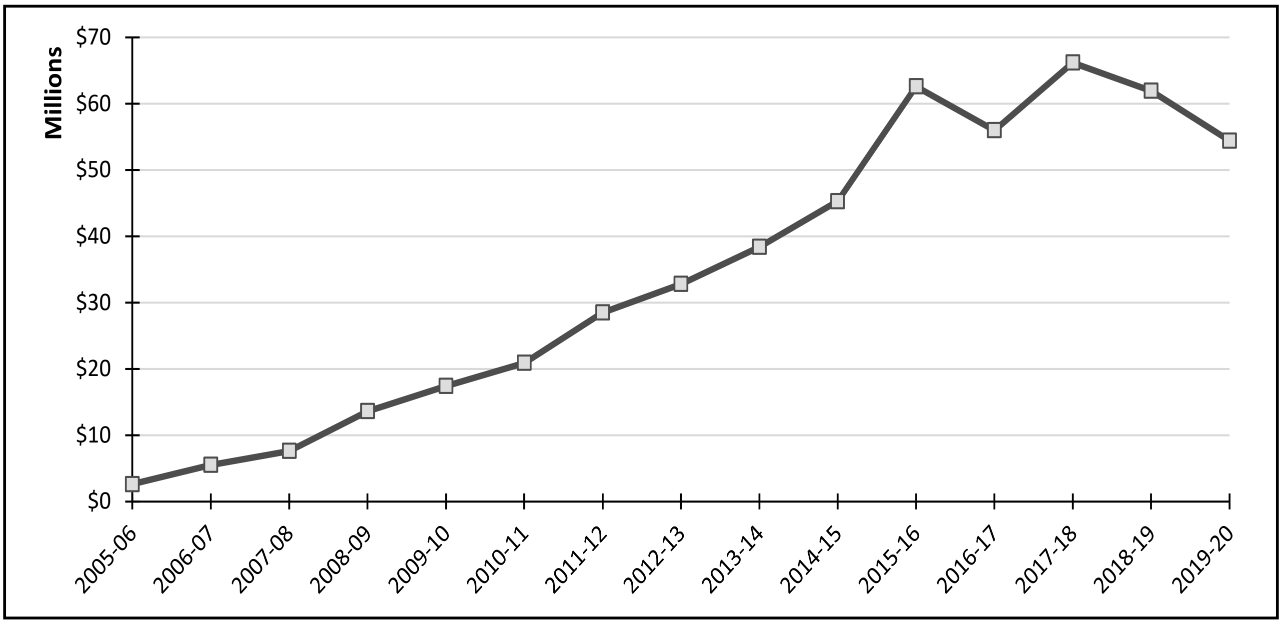
Accordingly, the provision of $54.428 million has been disclosed on the Statement of Financial Position of the Board as at 30 June 2020 included in this Report.

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

2019-20	$54.4M
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.

Current review
A fifth triennial review was undertaken during this 2019-20 reporting period, for the period ending 31 December 2019 and resulted in the Minister:

- Retaining the current levy rate of 0.1% of leviable activity.

Other key findings of the report note:

- Scheme currently has a small surplus that has decreased sharply in recent weeks due to investment market falls.
- Surplus is expected to be supplemented by Inpex levy income in coming months.
- Notwithstanding Inpex levy, Scheme surplus is expected to decline over coming years, eroding the Scheme solvency margin.
- Scheme is projected to fall into deficit towards the end of this decade.
- Economic impacts of coronavirus may be wide ranging and very severe, and scenarios considered in the Report do not attempt to capture all potential impacts.
- Current levy rate of 0.1% may not be sustainable in the longer term.
- Current levy rate of 0.1% of leviable activity is below break-even levy rate estimated to be between 0.29-0.35%.

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 leviable activity.

The report on the third review also noted that:

- the 0.1% levy rate is below the break-even levy rate and may not be sustainable in the longer term;
- while the then high level of surplus was not desirable and it was appropriate that

it be reduced over time via a levy rate below the break-even rate, some level of surplus in the Scheme is necessary to have the resilience to cope with the following known variables that may impact on the surplus position,

- Investment performance
- Liability measurement
- Levy income; and

- the projected levy income appears to be lower than the Scheme accruing costs, and so Scheme surplus will be eroded over coming years. Although this was not a concern in the short to medium term due to existence of a surplus, in the longer term the levy rate may have to rise to ensure financial viability of the Scheme.

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.

<u>Future review</u>
The next triennial review of the Scheme is is scheduled to be conducted for the period ending December 2022 at the latest.

Section 33(5) Report

This reporting period also saw the actuary requested to prepare a report under Section 91 (6) of the CILSLB Act, to enable a percentage for the excess amount of levy to be determined by the Minister in accordance with section 33 of the CILSLB Act, upon the completion of a major project.

This project was the first to be assessed under the provisions of the CILSLB Act, that applies to projects with construction costs in excess of $1 billion.

The report was tabled in the Legislative Assembly on 23 June 2020.