Annual Report
2016-17

NT BUILD

Portable long service leave

Northern Territory Construction Industry

www.ntbuild.com.au

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

Objective of the report

The objective of the report is to satisfy the requirements of section 68 of the *Construction Industry Long Service Leave and Benefits Act* by presenting the Minister responsible for NT Build with a summary of the activities of the Board during the 2016-17 financial year.

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

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Letter to Minister

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

Dear Minister

RE: NT BUILD ANNUAL REPORT 2016-17

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

The report details the activities and achievements of NT Build during its twelfth year of operation and has been prepared in accordance with the provisions of Section 68 of the *Construction Industry Long Service Leave and Benefits Act* (the CILSLB Act).

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

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

As required by section 69 of the CILSLB Act, you are advised that the Auditor-General has audited NT Build's financial statements for the year ending 30 June 2017 and her comments are contained in this report.

May I also draw your attention to section 68(5) of the CILSLB Act, which requires that a copy of this Report be tabled in the Legislative Assembly within six sitting days of receipt.

Yours sincerely

MICHAEL MARTIN OAM
Chairperson, NT Build Board

24 November 2017

Chairperson's Report

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

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

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

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

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

It is very appropriate that I take this opportunity to thank my fellow board members for their contribution over the past 12 months and their input in to the strategic issues addressed by the Board during the year. I would also like to thank the outgoing board member Craig Graham for his support and wish him well in his role as the Territory's Under Treasurer.

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

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

MICHAEL MARTIN OAM
Chairperson

Registrar's Report

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

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

The Scheme completed its twelfth year of operating on 30 June 2017. As a result of the Scheme's maturity the payment of benefits to workers significantly increased during 2016-17, with the value exceeding the amount of levy revenue received by approximately 62%. A total of 954 benefit claims were processed during the year as more workers became eligible for benefit payments. This represented an increase of 276 claims in comparison to 2015-16. Eligibility for paying these benefits was possible in part due to the National Reciprocal Agreement, which recognises workers' service in all other Australian jurisdictions and the maturing of the Scheme. This growth in benefit claims is expected to continue to accelerate over the coming years as Scheme member's entitlements continue to mature.

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

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

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

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

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

THEO TSIKOURIS
Registrar

Part 1: Introduction and Overview

2016-17 Highlights

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

2017-18 Priorities

- Finalise the redevelopment of the Scheme's website, designed to integrate customer self-service functionality and be adaptable for viewing on multiple electronic device formats (phone/tablet/computer).

- Closely monitor the Scheme's financial position and report on its ongoing financial status in the current low levy (0.1%) and high threshold ($1 million) environment.

- Continue to monitor and review the investment program to identify appropriate opportunities to support the ongoing financial viability of the Scheme.

- Continue to monitor and review the operation of primary business systems to ensure operational savings, improvements and efficiencies are maximised.

- Continue to monitor, review and implement operational systems to maximise revenue collection and minimise administrative costs for NT Build and maximise stakeholders convenience.

- Continue to actively encourage the registration of all eligible workers and relevant employers.

- Maintain a strong compliance audit regime to ensure Scheme levy revenue is maintained.

- Finalise the refurbishment of the office front counter area for staff security and safety reasons.

About the organisation

NT Build is a statutory corporation established by the *Construction Industry Long Service Leave and Benefits Act* (the CILSLB Act) which came into effect on 1 July 2005.

The purpose of the Scheme as set out in the CILSLB Act is:

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

The establishment of the Scheme in the Northern Territory completed a network of similar schemes in all Australian jurisdictions. The Territory construction industry and its employees are therefore no longer at a disadvantage in respect of this form of benefit.

The Scheme is administered by a Board, called NT Build, which comprises a chairperson, and up to six members nominated by the Minister.

NT Build is not an agency within the meaning of the *Financial Management Act* or the *Public Sector Employment and Management Act* and as such no general allocation of funding is provided to NT Build through the Territory Budget.

Under the Administrative Arrangements Order in force for the period ended 30 June 2017 the Department of Trade, Business and Innovation had the principal responsibility for the general administration of the CILSLB Act. However, in accordance with the CILSLB Act, the Board holds the specific responsibility for the day-to-day management of the Scheme and for providing advice and making recommendations to the Minister about the operation of the legislation.

The Scheme, including staffing and operational expenses, is self funded through the collection of a levy imposed on eligible construction work undertaken in the Territory and investment earnings. This revenue is used to fund the payment of long service leave benefits accrued by construction workers while working on defined projects in the Territory.

The staff of NT Build are Northern Territory Public Sector employees who are made available to the NT Build Board under an agreed full cost recovery arrangement.

The NT Build Board is responsible for expending the Scheme's money and has its own financial reporting requirements. The Board has therefore prepared this annual report on the performance of the Scheme for submission to the responsible Minister.

General overview – portable long service leave scheme

Key features

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

Some key features of this Scheme include:

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

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

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

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

- A statute based scheme, governed by a board consisting of an chairperson and members appointed by the Minister to oversee the management of the Scheme.

Workers

The Scheme enables the Territory's building and construction workers to benefit from the introduction of a portable long service leave scheme based on their service to the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry.

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

A registered worker can be credited with a maximum of 220 days of qualifying service each financial year. A total of 6.5 days long service leave credit is accrued for each 220 days. Once a worker has accrued 65 days long service leave credit (i.e. equates to 10 years service), they can apply for 65 days (i.e. 13 weeks) long service leave or, with the agreement of their employer, take leave in separate periods of not less than 5 days. Workers need to subsequently accrue a further 32.5 days long service leave credit before they can apply for further leave.

Special pro rata provisions are also contained in the CILSLB Act for workers who die, retire or cease to perform construction work. Long service leave benefits accrued under this Scheme are paid by NT Build upon application by the worker or their authorised representative.

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

- be employed to carry out construction work on a site in the Northern Territory;
- work for the private sector, i.e. not for the government (including the Territory, local, interstate or Commonwealth governments);

- not be working in an administrative, clerical, office-based managerial or professional capacity;
- spend at least 50% of their work time at the construction site for the work; and
- work a minimum of three days in any reporting period (i.e. six months).

Workers employed either full-time, part-time, as a casual or as a labour-only contractor (i.e. those who have an ABN) are eligible to register.

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

Employers

As noted previously, the Scheme enables workers to qualify for long service leave based on their service to the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry.

The Scheme is funded by:
- a levy on specified construction work in the Northern Territory; and
- investment earnings.

Most employers of construction workers will therefore not have to make any financial contribution to the Scheme, as this will be the obligation of project developers. However, in certain circumstances where an employee has been continuously employed by the one employer, that employer may have to contribute or pay for long service leave that accrued before 1 January 2005 under the Northern Territory private sector *Long Service Leave Act*.

Once a worker has been registered, employers are required to keep adequate records to account for any eligible workers employed. An employer return form is completed twice a year advising NT Build of the number of days worked by all registered employees and any other information required by NT Build. The information provided by employers is used to update registered workers' records.

An eligible employer under the Scheme is one:

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

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

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

For the purpose of this Scheme, construction work covers commercial, domestic, industrial and civil construction. Construction work includes workers performing repair, maintenance, extension and demolition, and is recognised regardless of whether the work performed is subject to the levy liability.

Long service levy

The Scheme is funded by a levy (determined by the responsible Minister) imposed on specified construction work undertaken in the Northern Territory and from investment earnings.

The levy is payable on all eligible construction projects and is calculated as a percentage of the total cost of the work. The cost of construction work is the sum total of all contract prices for the work, covering aspects such as the cost of labour, materials (including prefabricated goods and installation), equipment, design, project management, consultancy and any other cost that directly or indirectly relates to the work.

The levy does not apply to:

- Class 1a(i) and Class 10(a) buildings under the Building Code of Australia (being single detached dwellings, including related private garages, carports, sheds, or the like); or
- construction work undertaken for not-for-profit organisations in respect of voluntary labour and donated materials.

Mining and wholly artistic works are also exempt from the levy.

The levy does not apply to work for which the total contract prices for the construction work is less than:

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

For construction work that costs $1 billion or less the amount of the levy is calculated as a set percentage of the cost of the work.

A two tier levy regime applies to projects with costs in excess of $1 billion. Under this two tier regime the 'standard' prescribed levy rate, which applies to all eligible construction projects under the Scheme, is applied to the first $1 billion. For the portion of the project costs that exceed the $1 billion threshold, a project specific levy rate is applied. This excess rate is determined by the Minister, on actuarial advice, and is to be sufficient to yield the amount likely to be required to fund the long service benefits of the registered employees who carry out the particular construction work.

The 'standard' prescribed levy rates that apply to eligible construction works undertaken in the Territory are:

- 0.1% for work started on or after 7 April 2014, regardless of completion date.
- 0.3% for work started from 1 April 2012 to 6 April 2014, regardless of completion date.
- 0.4% for work started from 1 July 2009 to 31 March 2012, regardless of completion date.
- 0.5% for work started from 1 July 2005 to 30 June 2009, regardless of completion date.

It is the responsibility of the person for whom the work is to be done to notify NT Build of the work, prior to commencement.

Interest and fines may be imposed if the levy is not paid when required.

Statistical highlights

Workers

Registration numbers

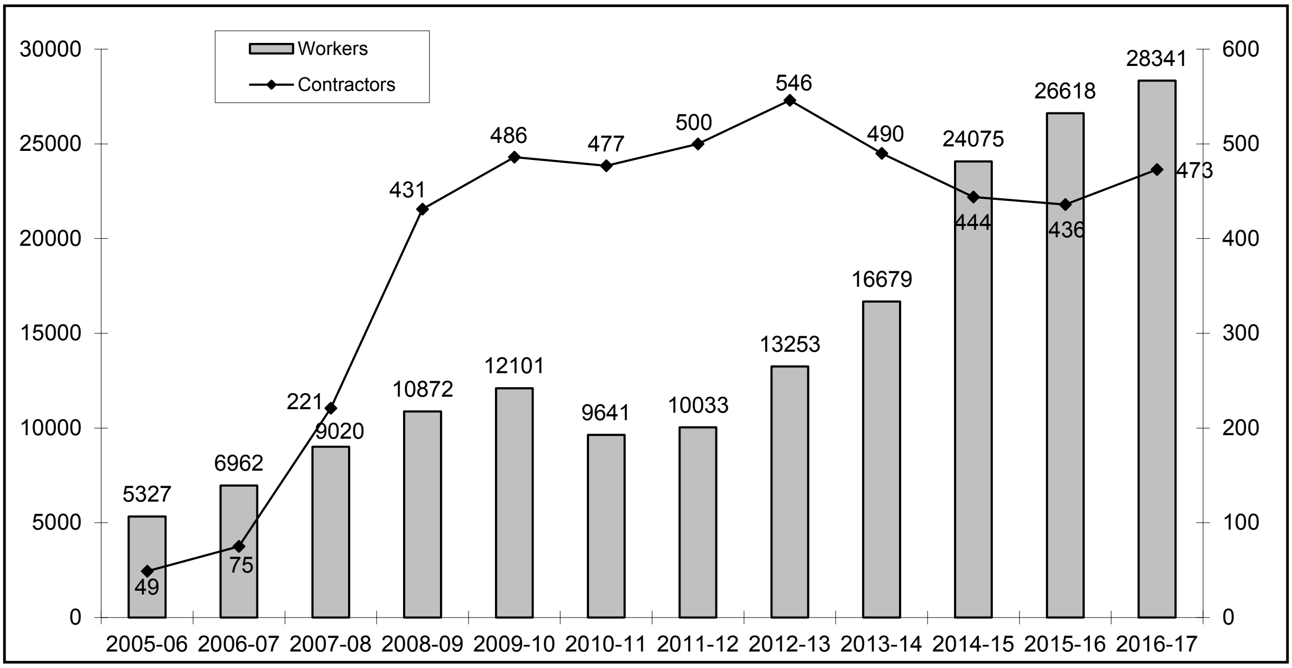
The CILSLB Act defines a construction worker as a person who carries out construction work either as an employee or as a contractor (who only supplies their own labour). Construction workers can also be engaged on a full-time, part-time or casual basis.

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

Table 1.1: Total number of active worker registrations

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

Chart 1.1: Active employee and labour-only contractor registrations



Section 13(1)(a) of the CILSLB Act requires the Registrar to deregister a person who has not been credited with any qualifying service for a continuous period of four years. The first of this deregistration process occurred in September 2010, with on going deregistrations being processed biannually.

The highly transient nature of the Northern Territory construction industry workforce is evidenced not only by the increase in registrations during this reporting period but also by the significant overall number of workers deregistered (inactive) from the Scheme as at 30 June 2017 - totalling 14 400 workers (an increase of 3243 from the previous reporting period).

While these deregistered (inactive) workers are no longer active in the Territory construction industry a majority of the workers are still believed to be actively working in the construction industry interstate.

Under the terms of the National Reciprocal Agreement, a person deregistered with the NT Build Scheme may be eligible to have their service credits reinstated if they are registered with an interstate scheme and have continued to work in the construction industry interstate.

Each Australian state and territory is party to the National Reciprocal Agreement. This Agreement provides for a worker's service credits while working in the building and construction industry in any of the states or territories, to be recognised as part of that worker's qualifying period of service for the purpose of determining their long service leave entitlement.

This means that workers are able to have construction industry service worked both with multiple employers and across multiple jurisdictions combined towards accruing a long service leave entitlement.

While it is possible that a significant proportion of the Scheme's deregistered workers will have their NT service reinstated under the terms of the National Reciprocal Agreement, the actual portion of service credits that will be reinstated will only be known over time.

Anecdotal evidence also suggests that, for whatever reason, there remains a number of workers in the local construction industry that would be eligible to participate in the Scheme but are as yet unregistered.

Some of the likely issues affecting Scheme registrations includes:

- Very high turnover of employment in the local construction industry.
- Proportion of the Territory construction industry workforce operating as labour-only contractors rather than employees.
- Industry feedback also supported anecdotal evidence that there may be a significant number of eligible labour-only contractors in the Northern Territory who are not registered with the Scheme.
- Voluntary nature of the NT Build Scheme (whereas most equivalent interstate schemes are compulsory).

Benefit payments
A worker who has accrued a long service leave credit can apply to use the credit. The benefit rate for the payment of the credit is determined by the Board, having regard to the average weekly ordinary time earnings for the construction sector published by the Australian Bureau of Statistics.

The rate is reviewed annually, generally on 1 July, and the defined rate is applied to both workers and contractors.

This process provides greater certainty in predicting future liabilities than is the case for a number of interstate schemes.

The benefit payment rate for the 2016-17 period was $1276 per week.

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

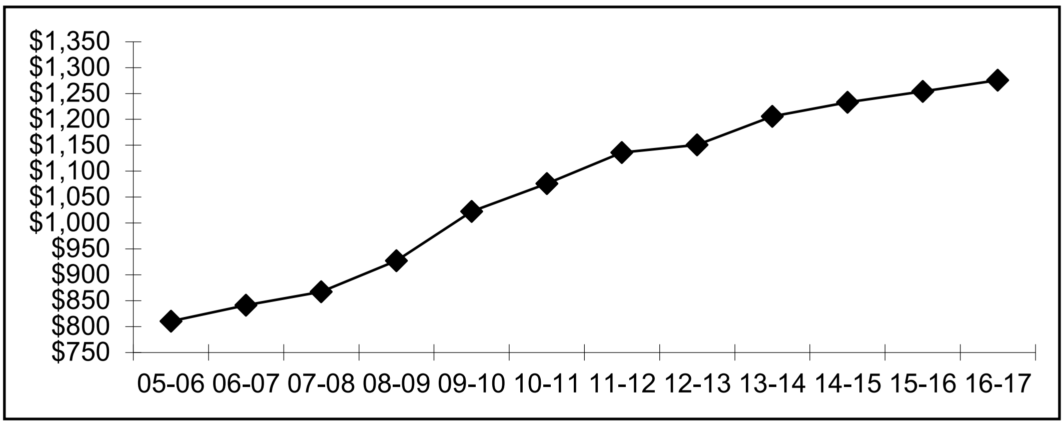
The CILSLB Act also contains special pro rata provisions to enable a long service leave benefit to be paid to workers who retire, cease to perform construction work or die.

Generally a worker must accrue 65 days long service leave credit (i.e. 2200 eligible service days = 10 years service) before they can apply to use their first credit of long service leave. Once accrued, the leave may be taken in separate periods of not less than 5 days.

Table 1.2: Approved benefit rates

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

Chart 1.2: Annual movement in benefit rate



Subsequent credits of long service leave can be used after every additional accrual of 32.5 days long service leave credit (i.e. 1100 service days = 5 years service).

As the NT Build Scheme has now matured, the number of workers who have accrued a long service leave entitlement has also increased.

As reflected in the table 1.3 below, these claims resulted in a total gross benefit payments expense of approximately $3.9 million in respect of work performed in the Northern Territory.

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

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

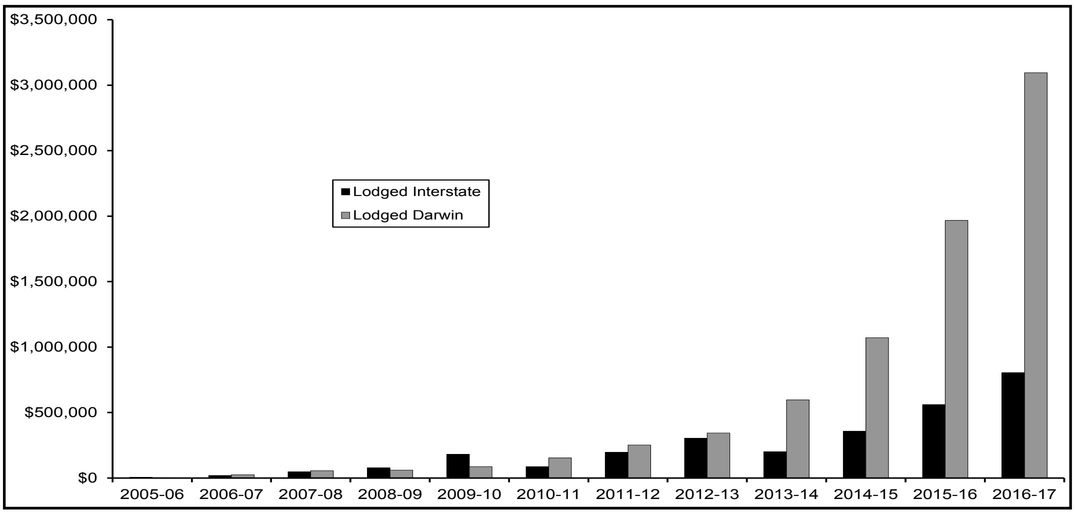
Being party to the National Reciprocal Agreement has also enabled NT Build to recognise service credits and make benefit payments both before the Scheme matured and before a worker achieves ten years of service within the Territory.

Chart 1.3 below illustrates the Scheme's financial liability for benefit claims that were lodged direct with NT Build and those lodged through a reciprocal interstate portable long service leave scheme.

Table 1.3: Benefit claims processed

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

Chart 1.3: NT benefit payments by place of lodgement.



Registration profile

Table 1.4: Age profile

	June 14	June 15	June 16	June 17
Average age	38	38	38	39
Oldest #	79	80	81	82
Youngest *	15	16	15	15

*Registrations are accepted from apprentices working in the construction sector, including school based apprentices
#Includes workers who have been inactive for less than 4 years and therefore not yet deregistered

Table 1.5: Days of service

	June 14	June 15	June 16	June 17
Total estimated service days	7.23M	9.57M	11.28M	14.07M

Scheme demographic

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

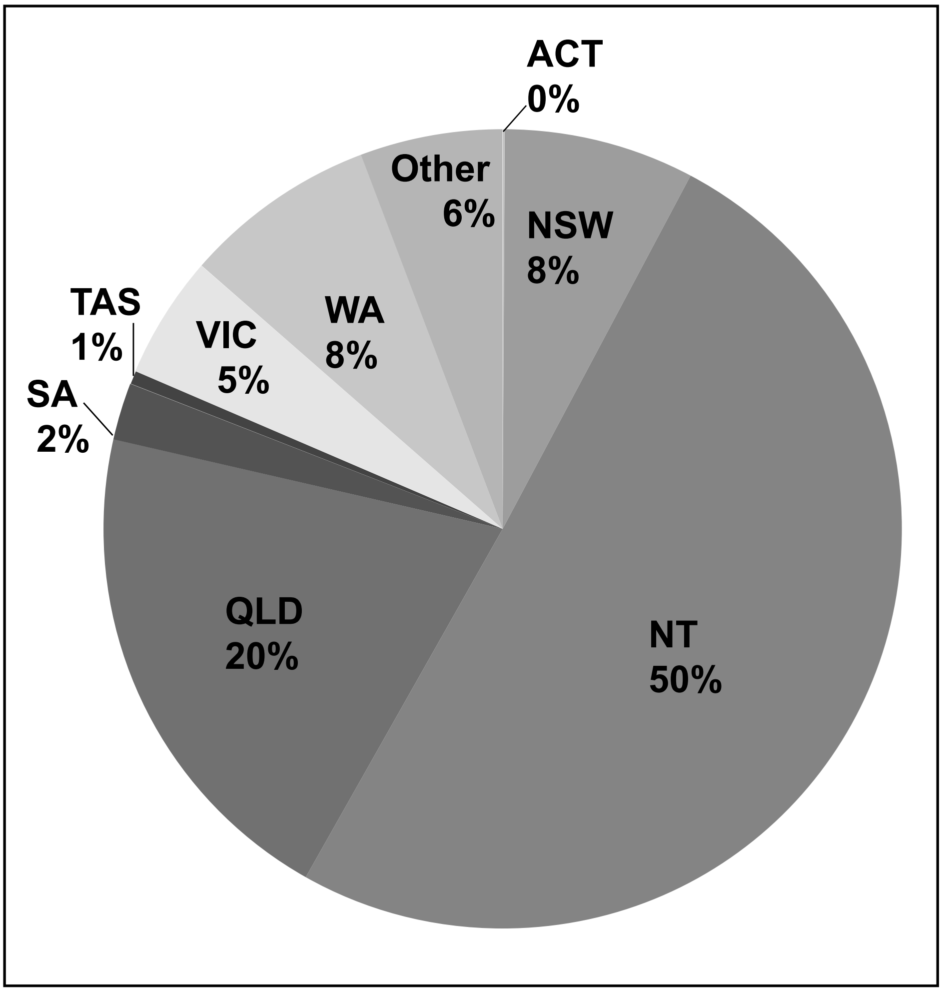
While these show that 50% of the Scheme's active registered workers record a Territory contact address, the table and chart also helps to illustrate the transient nature and mobility of the workforce in the construction industry across state and territory borders.

Table 1.6: No. of active workers by contact location

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

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

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



Employers

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

Table 1.7: Active employer registrations

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

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

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

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

Levy payment and compliance

The levy rate has been reduced over time, with the current rate of 0.1% coming into effect from 7 April 2014. The exemption threshold value was also increased from $200,000 to $1 million at that time. Examples of other exemptions to the levy include; Class 1a(i) and Class 10(a) buildings under the Building Code of Australia, mining and wholly artistic works.

The table 1.8 below provides a summary comparison of total levy payments received from project developers.

Table 1.8: Summary - levy payer contributions

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

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

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

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

NT Build has continued to enjoy a high level of compliance by project developers with the assistance of the office, especially field officers.

Section 81(1)(b) of the CILSLB Act empowers the Registrar to compel a person to provide any information relating to construction work on which the levy is or may be imposed. Where a levy payer fails to comply with a section 81(1)(b) notice the person could be prosecuted for failure to comply with the notice.

Issuing of section 81(1)(b) notices aims to streamline the administrative effort required to effect successful and timely prosecution of developers who choose not to fulfil their statutory obligation to notify NT Build of the project commencement and paying the levy.

As demonstrated in table 1.9 below, one notice was issued during the 2016-17 reporting period.

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

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

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

Debt recovery

The NT Build Board has authorised the Registrar to recover debts owing to the Scheme directly through the engagement of a debt collection agent and, if necessary, through the small claims court.

The use of debt collection agents is generally reserved for those instances where a levy payer, who has been issued an invoice by NT Build in relation to a levy amount owing, defaults on the payment of their levy obligation and after other efforts to secure payment have failed.

Table 1.10: Summary - debt recovery action

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

*Debt collection agents appointed with effect from 4 June 2007

Investment of funds

As noted in the Financial Statements included in this report, NT Build continued to invest accumulated funds from revenue raised through the collection of levies.

The Scheme is fully self-funded through the collection of a levy imposed on construction work undertaken in the Territory and earnings from invested accumulated funds. This revenue is used to fund the payment of long service leave benefits accrued by construction workers while working in the Territory and to meet the Scheme's operational expenses.

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

The Scheme completed its twelfth year of operating on 30 June 2017. While the liabilities of NT Build will in the main continue to be longer term, as a result of the Scheme's maturity the payment of benefits to workers significantly increased during 2016-17, with the value exceeding the amount of levy revenue received by approximately 62%.

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

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

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

- direct cash investments; and
- a multi-asset class, multi-manager fund provided by our implemented consultant JANA Moderate Trust.

This strategy also encompasses a rolling three year forward outlook for projecting the short-term financial status of the Scheme. Given the often cyclical nature of the construction industry generally and the high potential impact of large resource development projects in the Territory, the Board considers that projections beyond this horizon are suitable only for actuarial purposes.

In order to sustain the financial viability of the Scheme, in the context of the ongoing volatility of the global financial markets and the low levy collection structure, the Board closely monitors and refines the Scheme's financial assets to ensure any adverse exposure of its investments are minimised.

At the conclusion of the 2016-17 reporting period it is pleasing to note that the Scheme's assets continue to cover liabilities.

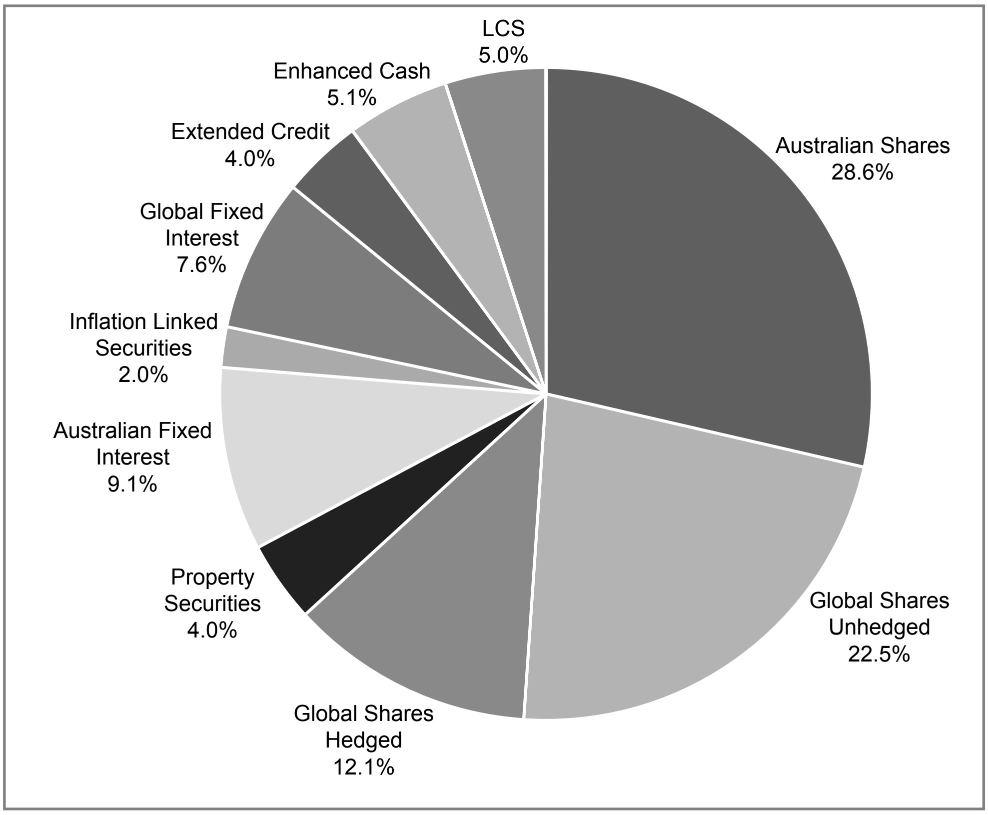
Information regarding the performance of the Scheme's investments is provided in the Financial Statements included in this report.

The following table 1.11 reflects a summary of the actual (pre interest) fund amounts transferred to the fund managers for investment, while chart 1.5 illustrates the actual asset allocations of the Scheme's JANA managed portfolio as at 30 June 2017.

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

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

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



Actuarial advice

Long service leave liability

A number of factors affect the actuary's ability to reliably measure the Scheme's liability. These factors can include:

- The extent of established historical data available to enable an accurate assessment of the Scheme's liability;
- Extent and range of non-levied construction work undertaken that is exempt from payment of the levy and for which worker benefit liability will still apply;
- Expenses estimated in administering the Scheme;
- Level of worker registrations and service turnover;
- Period of service credits accumulated before a benefit payment is claimed;
- Benefit payment rate applied and the salary growth rate for the construction industry; and
- The extent to which either service credits are abandoned without benefit payments accruing, or vested benefits at exit from the Scheme never being claimed.

Having regard for the above factors, the Scheme's consulting actuary Cumpston Sarjeant Pty Ltd assesses and recommends a liability amount for accrued long service leave benefits to be adopted for accounting purposes as at 30 June each year.

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

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

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

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

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

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

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

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

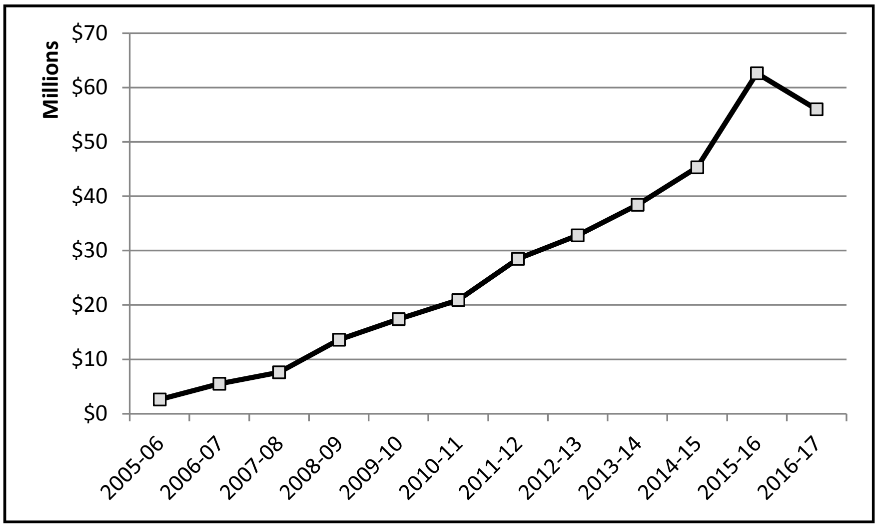
As a result of applying the asset based discount rate in lieu of the previously used risk-free discount rate when valuing the liability in this reporting period, along with adjustments to other actuarial assumptions, the 2016-17 valuation represents a net decrease of $6.6 million from the previous 2015-16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

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

Table 1.12: Summary - accrued long service leave liability

2016-17	$56.0M
2015-16	$62.6M
2014-15	$45.3M
2013-14	$38.4M
2012-13	$32.8M
2011-12	$28.5M
2010-11	$20.9M
2009-10	$17.4M
2008-09	$13.6M
2007-08	$7.6M
2006-07	$5.5M
2005-06	$2.6M

Chart 1.6: Rate of long service leave liability accrual



Accordingly, the provision of $55.962 million has been disclosed on the Statement of Financial Position of the Board as at 30 June 2017 included in this report.

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

Section 91 actuarial review

Under the CILSLB Act, the Scheme's actuary must at least once every three years undertake a review of the:

- administration of the Scheme (including any financial aspect of the administration);
- methods used in working out long service benefits; and
- the levy rate.

The report on the findings of each review are presented to the Minister responsible for the Scheme and are tabled in the Legislative Assembly.

<u>Previous reviews</u>
The first review of the Scheme was conducted during 2008-09 for the period ending 30 June 2008 and resulted in the NT Government:

- Approving a 20% temporary reduction in the levy rate, from 0.5% to 0.4% for two years, commencing from 1 July 2009 until 30 June 2011; and
- Introducing a $1 billion threshold for the purpose of calculating the levy on large scale construction projects, effective from 1 July 2009.

A second triennial review was undertaken during 2011-12 for the period ending 30 June 2011 and resulted in the NT Government:

- Approving an ongoing 25% reduction in the levy rate, from 0.4% to 0.3%, effective from 1 April 2012.

A third actuarial review was conducted during 2014-15 for the period ending 30 June 2014 and resulted in the NT Government:

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

The report on the third review also noted that:

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

Current review

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

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

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

The key findings from this review indicated that:

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

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

Future review

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

Part 2: Operational Governance

Part 2 Operational governance

The Board

Functions and powers

The *Construction Industry Long Service Leave and Benefits Act* (CILSLB Act) sets out the Board's main functions as well as the powers that the Board may exercise in performing those functions. The functions of the Board in administering the portable long service leave scheme (provided for in section 55 of the CILSLB Act) include:

- administration of the Scheme; and
- providing advice and making recommendations to the Minister concerning the operation of the Act.

In exercising its powers and carrying out its functions, the CILSLB Act obliges the Board to do so in a manner that is reasonable and accords with and furthers the object of the Act.

Membership

The Scheme is administered by a Government appointed Board. Under the provisions in the CILSLB Act, the constitution of the Board consists of:

- a minimum of five members made of the Chairperson and four other members; and
- up to two additional members.

A person may be eligible for appointment to the Board if they hold suitable qualifications, or have suitable knowledge or experience, relating to the functions of the Board.

Board members are able to hold office for a period of up to five years, and may be reappointed.

The number of public sector employees that may be appointed to the Board is also capped to a maximum of two. This restriction ensures majority industry participation in the administration of NT Build and keeps the Scheme, established for the benefit of industry, at arm's length from government.

Changes in board membership during the 2016-17 period saw the reappointment of Michael Haire for a further term and the resignation of Craig Graham. Action to appoint a replacement member in Mr Graham's stead was however not finalised prior to the end of this reporting period.

The membership of the NT Build Board on 30 June 2017 was as follows.

Chairperson	**Michael Martin OAM** Member of Northern Territory Government: Remuneration Tribunal, Top End Health Services Board, Superannuation Trustee Investment Board and former senior NT public servant
Other members	**Dick Guit** General Manager Sitzler Pty Ltd President of the MBA NT
	Michael Haire Organiser (QLD/NT) Electrical Trades Union (ETU)
	David Malone Executive Officer Master Builders NT
	Michael Milatos Director Cento Pty Ltd
Additional members	**Vacant**
	Rosemary Campbell Director Merit Partners

Conducting business

Meetings
During this reporting period the Board convened a total of 18 times, including 6 regular meetings and 12 occasions involving specific matters that required attention between scheduled meetings.

Details regarding members' participation at meetings is provided in the Financial Statements included in this report.

Remuneration
Board members are remunerated in accordance with the rates and conditions determined under the *Assembly Members and Statutory Officers (Remunerations and Other Entitlements) Act*; based on a classification that recognises the range of duties, powers and responsibilities assigned to the Board.

Details regarding payments to members is provided in the Financial Statements included in this report.

General decisions
In the course of the 18 meetings of the Board, 82 general items of business were resolved, covering a range of issues concerning governance, scheme administration and the financial and general operational management of NT Build.

Board Policies
One policy, relating to the revised weekly benefit level was issued during this reporting period.

All policies of the Board are intended as a guide only and are not intended to bind the Board to any particular action or decision about the nature of construction work or affecting the operation or administration of the portable long service leave scheme.

Copies of all policies are published on the website at: *www.ntbuild.com.au*

Ministerial directions
Section 67 of the CILSLB Act enables the Minister to give a direction to the NT Build Board relating to the exercising of its powers or the performance of its functions.

No directions pursuant to section 67(1) of the CILSLB Act were given during the year ending 30 June 2017.

Disclosure of interests
As required under the CILSLB Act a register of the interests of members of the Board is maintained. All members submit an initial declaration stating any interests of relevance to Board business and a process has been implemented to ensure any new or amended declarations are disclosed at each meeting.

Reconsideration/reviews
Under Section 84 the CILSLB Act, a person affected by a decision made by either the Registrar or the Board may request the Board to formally reconsider that decision.

Table 2.1 on the following page, illustrates no applications for reconsideration were received during this reporting period.

Similarly, under Section 85 of the CILSLB Act, a person who has applied to the Board for a reconsideration of a decision may, if dissatisfied with the decision, apply to the Local Court for a review of the Board's reconsidered decision.

No applications for a review by the Local Court were received during the 2016-17 reporting period.

Table 2.1: Summary - applications for reconsideration lodged - Section 84

YEAR	B/FWD	LODGED AGAINST		RESOLVED	C/FWD
		decision of Registrar	decision of Board		
2016-17	-	-	-	-	-
2015-16	-	1	-	1	-
2014-15	-	-	-	-	-
2013-14	-	-	-	-	-
2012-13	-	1	1	2	-
2011-12	-	-	-	-	1
2010-11	-	-	1	1	-
2009-10	1	-	1	2	-
2008-09	-	-	2	1	1
2007-08	-	-	1	1	-
2006-07	-	-	1	1	-
2005-06	-	1	-	1	-

The Office

Registrar

The CILSLB Act requires that a Registrar (who is to be an employee within the meaning of the *Public Sector Employment and Management Act*) be formally appointed by the Board for the Scheme. Mr Theo Tsikouris is the appointed Registrar for the Scheme.

The specific powers and primary functions of the Registrar are set out in the CILSLB Act. The functions of the Registrar in administering the portable long service leave Scheme (provided for in section 77 of the CILSLB Act) include:

- Administering the Scheme in accordance with any directions given by the Board;
- Exercising any powers or functions delegated by the Board;
- Maintaining construction worker and employer registers;
- Approving of forms to be used for the Scheme; and
- Approving registration requests and deregistrations for the Scheme.

Table 2.2: Staffing profile as at 30 June 2017

Classification	At 30 June	
Level	FTE	Gender
ECO1	1	M
SAO1	1	F
AO7	1	M
AO6	3	1M, 2F
AO4	2	1F, 1M
AO2	0	-
	8	

Staff

Section 59 of the CILSLB Act enables the Board to engage any person to assist it in exercising its powers and performing its functions. For administrative efficiency however the Board made the decision to source employees from within the Northern Territory Public Sector (NTPS) rather than employ directly.

In accordance with the Administrative Arrangements Order, in force for the period ended 30 June 2017, responsibility for the administration of the CILSLB Act was allocated to the Department of Trade, Business and Innovation (DTBI). This means that, for administrative purposes, NT Build reported direct to the Minister for DTBI. Likewise, the staff of NT Build are employees of DTBI, however under an agreed arrangement the staff are made available to the NT Build Board on a full cost recovery basis.

As illustrated in the tables below, the staffing profile for NT Build as at 30 June 2017 consisted of eight staff.

Table 2.3: Staffing FTE as at 30 June 2017

As a 30 June	FTE
2017	7.4
2016	6.8
2015	7
2014	7
2013	7
2012	7
2011	6
2010	7
2009	5.5
2008	6.2

For the purpose of managing staff, the Registrar and other public sector employees made available to the Board are engaged under the standard NT Public Sector employment arrangements. In addition, the Registrar has been provided with delegations equivalent to those applicable to an NTPS Chief Executive Officer under the provisions of the *Public Sector Employment and Management Act*, in relation to the staff of NT Build.

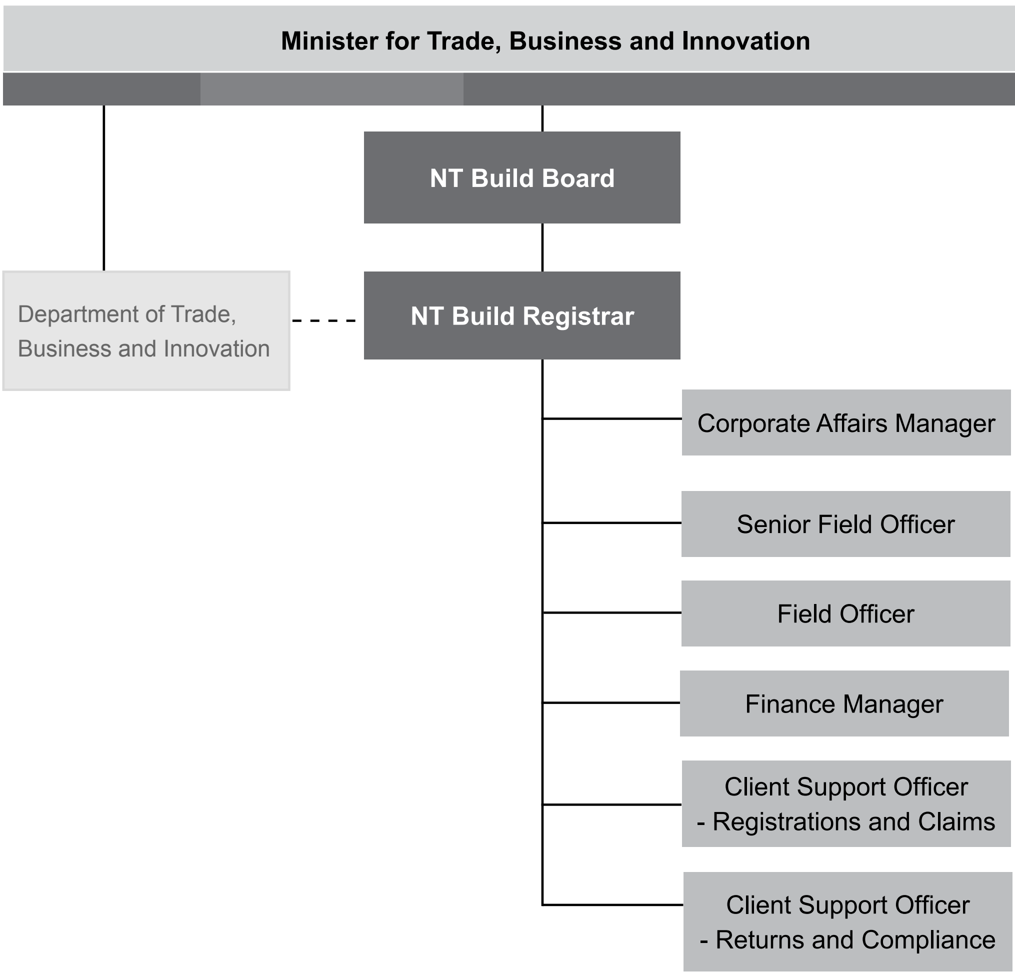
Disclosure of interests

In accordance with the Northern Territory Public Sector Code of Conduct, NT Build staff are required to disclose any financial or other interests held by them immediately upon becoming aware that a potential conflict between personal interest and official duty, whether real or apparent, has arisen or is likely to arise.

Written declarations have been submitted by all relevant NT Build staff when appropriate.

Organisation structure

The following diagram represents the organisation structure as at 30 June 2017.



Information management

Information Privacy and Access (FOI)
As a 'body corporate' established under Northern Territory legislation, NT Build is an identified entity for the purpose of reporting under section 98 of the *Information Act*.

In accordance with section 98 of the *Information Act*, NT Build had no requests to report for the access to information held by NT Build during the 2016-17 financial year.

- *Managing Access*

NT Build strives to make general information of interest available to any interested party, where such information is allowable under the CILSLB Act and does not interfere with the essential public interest, individual privacy or the effective operation of NT Build. In most cases, levy payers and registered workers and employers seeking access to their own information held by NT Build can obtain the information more quickly under the provisions of the CILSLB Act rather than by making an application for access under the *Information Act*.

- *Managing Privacy and Protection*

NT Build respects the privacy of individuals and is committed to collecting, using, storing and managing personal information in a manner that complies with the Information Privacy Principles.

More information is published on our internet site at: *www.ntbuild.com.au*

Records management
Part 9 of the *Information Act* (Records and Archives Management) provides for the establishment and implementation of records management standards. Adequate records management underpins the access, correction and privacy components of the *Information Act* by ensuring that Government information (records) can be found, read and reproduced in response to requests.

Notwithstanding that NT Build is a 'body corporate' established by Northern Territory legislation, the Department of Trade, Business and Innovation (DTBI) is the agency designated under the Administrative Arrangements Order with responsibility for the general administration of the CILSLB Act.

For the purpose of Part 9 of the *Information Act*, all records relating to the administration of the CILSLB Act handled by NT Build are managed in accordance with the DTBI records management framework and policies.

Information systems

- *Office environment*

The Northern Territory Government's information technology services are managed through a number of out sourced service provision arrangements. NT Build operates within the standard Northern Territory Government information technology server environment.

- *Rollout of new business system*

The Formation Technology Group was commissioned by the Board to develop a new system to support the administration of the NT Build Scheme during the previous reporting period.

The new system went live from 1 July 2016 and have been well received by NT Build workers, employers and payer alike.

The new system provides a user friendly and intuitive client self-service functionality.

It is also expected to accommodate future Scheme growth demands and ensure that ongoing administration costs are minimised as the Scheme grows.

The Formation Technology Group has been engaged to provide ongoing management of the business system.

Communication and marketing

A project to redevelop the Scheme's website was undertaken this reporting period and is expected to be completed and operational in the first quarter of the 2017-18 reporting period. The new website will be designed to integrate customer self-service functionality and be adaptable for viewing on multiple electronic device formats (phone/tablet/computer).

In addition the following general activities were undertaken.

<u>General marketing activities</u>
Throughout the reporting period a number of customer focused marketing activities were implemented.

These have included:

- Advertising in relevant industry publications and directories;
- Maintenance of the NT Build website;
- Production and maintenance of a range of targeted customer information bulletins and fact sheets; and
- Delivery of numerous formal and informal presentations to targeted customers, including conducting regional visits to Katherine, Nhulunbuy, Tennant Creek and Alice Springs, as well as local site visits and information sessions.

<u>Industry consultation</u>
- *Information sessions and briefings*

During the reporting period NT Build staff provided a range of information and briefing sessions to construction industry organisations, such as:

  - General presentations at industry forums;
  - Targeted presentations to employer and developer groups; and
  - Tailored on-site briefing sessions to employees, employers and developers.

- *Presentations to the Board*

During the reporting period eight organisations made a presentation to the Board on matters of interest to the effective administration of the Scheme.

- *Liaison with other construction industry long service leave schemes*

As a party to the National Reciprocal Agreement, NT Build continues to liaise with other state and territory construction industry long service leave schemes for the purpose of processing benefit claims lodged by registered workers.

In addition, the Registrar and nominated board members participate in regular meetings with the chief executives and chairpersons of equivalent interstate construction industry portable long service leave schemes for the purpose of exchanging ideas on scheme coverage, administrative practices, legislation, investments, and information technology.

Hosting of these meetings are managed on state/territory rotation basis.

Insurance and risk management

Insurance

As a self funded statutory body corporate, insurance policies relating to public liability, vehicle and property damage and workers compensation have been endorsed by the Board to mitigate any financial risk to the Scheme.

Finance, Risk and Audit (FRA) committee

The FRA committee has been established by the Board for the purpose of providing:

- reasonable assurance to the Board that NT Build's core business goals and objectives are being achieved in an efficient and economical manner, within an appropriate framework of internal control and risk management; and
- strategic oversight and focus on the key financial and strategic risks and controls across NT Build but does not replace the appropriate function of the Board.

The endorsed terms of reference for the FRA include the requirements for the committee;

- composition to be reviewed at least biennially and its members will be appointed, replaced or removed at the discretion of the Board;
- to consist of a minimum of three members, with two constituting a quorum;
- to meet as frequently as is necessary to undertake its role effectively and in any event at least three times per year;
- to report to the Board through the Chair of the committee by written report at Board meetings, including recommendations for Board consideration.

Current members appointed to the FRA committee are Rosemary Campbell (FRA Chair), David Malone and Michael Milatos.

During this reporting period the FRA committee formally convened on two occasions.

Financial sustainability

The NT Build Board is responsible for the administration of the Scheme which entails, amongst other things, investing the assets of the organisation and monitor the Scheme's solvency.

Following the findings in the report from the actuary's triennial review conducted in 2017, the Board noted that the Scheme is not sustainable at the current 0.1% levy rate.

It was acknowledged that the Scheme's current financial standing was not totally unexpected due to the Government's decision to reduce the levy rate to 0.1% and increase the levy threshold to $1 million without consultation with the Board.

- *Solvency management*

Following a review of the investment strategy, a solvency ratio of 110% to 130% was adopted by the Board. A capital management plan is expected to be finalised during the first quarter of the 2017-18 reporting period.

- *Change in accounting policy*

The NT Build Board adopted a change in accounting policy, from a using a risk-free discount rate to an asset-based discount rate.

It is expected this change in the discount rate methodology used will:

- support better monitoring of the Scheme's long service leave liability and the effect on its financial position;
- further reduce uncertainty in the liability valuation; and
- provide a more relevant and reliable representation of the Scheme's long service leave liability.

This change in policy is adopted for accounting purposes and disclosed on the balance sheet of the Board with effect on and from this 2016-17 reporting period.

<u>Financial and internal audit services</u>
As the contracted financial advisers for the Scheme, TDH Chartered Accounts continued to provide NT Build with independent financial, accounting and taxation advice and services.

During the reporting period the following range of services were provided under the contracted consultancy arrangement.

- On-going ad-hoc general advice in regard to the accounting and taxation implications of NT Build activities.
- Preparation of annual Financial Statements for statutory auditing and reporting.
- Advice and assistance with the delivery of a compliance audit program.

<u>Levy compliance program</u>
NT Build operates a 'Strategic audit and levy compliance program' to support its strategic audit framework. This framework introduced an annual audit program aimed at strengthening levy compliance and supporting the effective and efficient administration of the Scheme, whereby routine audits of selected construction projects are to be conducted to ensure that levy payers are declaring and remitting the correct amount of levy that is required.

All audits are undertaken by contracted external auditors. For this purpose, a panel contract arrangement has been established for the purpose of conducting levy compliance audits.

The final report prepared by the auditor of a compliance review, including audit findings, are submitted in full to the Board for consideration and to determine any further action.

Where, as a result of the audit findings, the reconciled cost of the construction project results in a finding that the actual cost was less than the original estimate, NT Build will refund the overpaid portion of the levy payment.

This includes a full refund where the reconciled total cost of the construction project is determined to be less than:

- $1 million for projects that started on or after 7/4/2014; or
- $200,000 for projects that started before 7/4/2014, regardless of completion date.

However, if the total cost of construction is determined to be more than the amount originally notified to the Board, the levy payer will be required to pay the additional amount of levy. An interest penalty may also be applied.

The following Table 2.4 provides a summary of the status of the levy compliance audits undertaken.

Table 2.4: Summary of the audits undertaken

	B/FWD	STARTED	FINALISED	C/FWD
2016-17	2	3	2 (d)	3
2015-16	-	2	-	2
2014-15	-	-	-	-
2013-14	-	-	-	-
2012-13	2	-	2(a)(d)	-
2011-12	4	-	2(a)	2
2010-11	2	4	2(a)	4
2009-10	1	2	1(a)	2
2008-09	-	1	-	1

(a) = Additional levy and interest penalty payable - audited final construction cost more than reconciled project cost declared.
(b) = Partial levy refunded - audited final construction cost less than reconciled project cost declared.
(c) = Full levy refunded - audited final construction cost assessed as less than $200 000 levy exemption amount.
(d) = No levy adjustment required - audited final construction cost same as reconciled project cost declared.

External audit

As required under the provisions of the CILSLB Act the annual statutory audit of the financial statements relating to the Board's operation for the year ending 30 June 2017 was undertaken by the NT Auditor-General.

The audited financial statements and accompanying report from the Auditor-General are included in the following Part 3 of this Annual Report.

Legal advice

Legal support services for NT Build are predominately provided by the Northern Territory Government Department of the Attorney-General and Justice. As such, the Solicitor for the Northern Territory provides both general and high level advice on the interpretation and application of the CILSLB Act, including the undertaking of any prosecutions on behalf of NT Build when necessary.

When required or appropriate, the Solicitor for the Northern Territory facilitates the outsourcing of a request for legal services for specialist advice or assistance. No out sourced legal services were engaged during this reporting period.

Part 3: Financial Accountability

Part 3 Financial accountability

Financial Statements for year ended 30 June 2017

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Independent audit report to the NT Build Board

Auditor-General

Independent Auditor's Report to the Board
NT Build

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Opinion

I have audited the Financial Report of NT Build which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the Financial Report, including a summary of significant accounting policies and other explanatory information, and the certification of the financial statements by the Board.

In my opinion the accompanying Financial Report of NT Build has been prepared in accordance with Australian Accounting Standards, giving a true and fair view of the financial position of NT Build as at 30 June 2017, and of its financial performance and its cash flows for the year then ended.

Basis for Opinion

I conducted the audit in accordance with *Australian Auditing Standards*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of my report.

I am independent of NT Build in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to the audit of the Financial Report in Australia. I have fulfilled my other ethical responsibilities in accordance with the Code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw attention to Note 10(a) to the financial statements which describes the uncertainty related to the Long Service Leave liability valuation as carried out on 4 September 2017. My opinion is not qualified in respect of this matter.

Other Information

Other Information is financial and non-financial information in NT Build's Annual Report which is provided in addition to the Financial Report and the Auditor's Report. The Board is responsible for the Other Information.

The Other Information I obtained prior to the date of this Auditor's Report was "*NT Build Annual Report 2016-17*".

My opinion on the Financial Report does not cover the Other Information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the Financial Report, my responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Financial Report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Independent auditor's report continued:

Auditor-General

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I am required to report if I conclude that there is a material misstatement of this Other Information and, based on the work I have performed on the Other Information that I obtained prior to the dated of this Auditor's Report, I have nothing to report.

Responsibilities of the Board for the Financial Report

The Board of NT Build is responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the Board is responsible for assessing NT Build's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate NT Build or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for overseeing the financial reporting processes of NT Build.

Auditor's Responsibilities for the audit of the Financial Report

My objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NT Build's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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Independent auditor's report continued:

Auditor-General

Page 3 of 3

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on NT Build's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report however, future events or conditions may cause NT Build to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Julie Crisp
Auditor-General for the Northern Territory
Darwin, Northern Territory

20 November 2017

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Board members' declaration

The Members of NT Build Board declare that:

1. The financial statements and notes for the year ended 30 June 2017 are in accordance with the Northern Territory *Construction Industry Long Service Leave and Benefits Act* and:

   a) comply with Accounting Standards, as stated in accounting policy Note 1 to the financial statements; and

   b) give a true and fair view of the financial position and performance of NT Build.

2. In the Members' of the Board opinion, there are reasonable grounds to believe that NT Build will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board and signed for and on behalf of the Board of NT Build.

Board member: MICHAEL MARTIN   Board member: ROSEMARY CAMPBELL

Dated: 17 NOVEMBER 2017

Statement of comprehensive income

for the year ended 30 June 2017

	Note	2017	2016
		$	$
Contributions from levy payers		2 446 361	3 664 778
Other income	2	13 027 579	2 330 754
Employee benefits expense		(897 368)	(853 314)
Depreciation and amortisation expense	3	(80 197)	(1 073)
Fees and allowances	3	(56 924)	(45 518)
Long service leave benefit payments		(7 848 252)	(4 729 387)
Long service scheme revaluation - current		6 650 000	(17 271 000)
Occupancy costs		(91 219)	(102 425)
Other expenses		(540 415)	(385 150)
Net surplus/(deficit)		**12 609 565**	**(17 392 335)**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**12 609 565**	**(17 392 335)**

The accompanying notes form part of these financial statements.

Statement of financial position
as at 30 June 2017

	Note	2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents	4	2 699 524	5 950 989
Trade and other receivables	5	1 194 152	820 891
Other financial assets	6	82 746 655	74 238 251
TOTAL CURRENT ASSETS		86 640 331	81 010 131
Non-current assets			
Property, plant and equipment	7	589	1 252
Intangible assets	8	318 140	318 025
TOTAL NON-CURRENT ASSETS		318 729	319 277
TOTAL ASSETS		86 959 060	81 329 408
LIABILITIES			
Current liabilities			
Trade and other payables	9	512 526	360 714
Short-term provisions	10	7 800 000	6 700 000
Other liabilities	11	7 918	489 643
TOTAL CURRENT LIABILITIES		8 320 444	7 550 357
Non-current liabilities			
Long-term provisions	10	48 162 000	55 912 000
TOTAL NON-CURRENT LIABILITIES		48 162 000	55 912 000
TOTAL LIABILITIES		56 482 444	63 462 357
NET ASSETS		30 476 616	17 867 051
EQUITY			
Reserves - implementation funding	12	296 867	296 867
Accumulated funds		30 179 749	17 570 184
TOTAL EQUITY		30 476 616	17 867 051

The accompanying notes form part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2017

2017	Accumulated Funds $	Implementation Funding $	Total $
Balance at 1 July 2016	17 570 184	296 867	17 867 051
Surplus/(Deficit) for the year	12 609 565	-	12 609 565
Other comprehensive income	-	-	-
Balance at 30 June 2017	30 179 749	296 867	30 476 616

2016	Accumulated Funds $	Implementation Funding $	Total $
Balance at 1 July 2015	34 962 519	296 867	35 259 386
Surplus/(Deficit) for the year	(17 392 335)	-	(17 392 335)
Other comprehensive income	-	-	-
Balance at 30 June 2016	17 570 184	296 867	17 867 051

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2017

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Levies received and other income		6 031 727	5 991 134
Payments to employees		(897 367)	(853 314)
Interest received		105 489	201 373
Long service leave payments		(7 715 224)	(4 648 462)
Payments for good and services		(696 440)	(569 666)
Net Cash provided by/(used in) operating activities	17	(3 171 816)	121 065
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets		(79 650)	(219 037)
Net Cash used in investing activities		(79 650)	(219 037)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in cash and cash equivalents held		(3 251 466)	(97 972)
Cash and cash equivalents at the beginning of financial year		5 950 989	6 048 961
Cash and Cash equivalents at end of financial year	4	2 699 524	5 950 989

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2017

The financial report covers NT Build as an individual entity. The financial report was authorised for issue in accordance with a resolution of the board members on 17 November 2017.

NT Build has its principal office at Charlton Court, Woolner, Northern Territory. The entity was established in 2005 under the Northern Territory *Construction Industry Long Service Leave and Benefits Act* and it administers this Act which provides a portable long service benefits scheme to building and construction workers in the Northern Territory and is a not-for-profit entity for reporting purposes under Australian Accounting Standards.

The functional and presentation currency of NT Build is Australian dollars.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Northern Territory *Construction Industry Long Service Leave and Benefits Act.*

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs, except for the measurement at fair value of selected noncurrent assets, financial assets and financial liabilities.

(b) Comparative amounts

Prior period financial statement amounts have been reclassified to conform to current period presentation.

(c) Property, plant and equipment

Classes of property, plant and equipment are measured using the cost model as specified below.

Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of costs of dismantling and restoring the asset, where applicable.

continued: Notes to the financial statements - 30 June 2017

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) Property, plant and equipment (continued)

Plant and equipment

Plant and equipment are measured using the cost model. All items of property, plant and equipment with a cost, or other value, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the NT Build Board, equal to or greater than $5,000 are recognised in the year of acquisition and depreciated as outlined below. Items of property, plant and equipment below the $5,000 threshold are expensed in the year of acquisition.

Depreciation

The depreciable amount of all property, plant and equipment, except for freehold land is depreciated on a straight-line method from the date that the NT Build Board determine that the asset is available for use.

Assets held under a finance lease and leasehold improvements are depreciated over the shorter of the term of the lease and the asset's useful life.

The depreciation rates used for each class of depreciable asset are shown below:

FIXED ASSET CLASS	DEPRECIATION RATE
Furniture, fixtures and fittings	10%
Office equipment	20%
Computer equipment	33.3%
Computer software	33.3%
Leasehold improvements	20%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

When an asset is disposed, the gain or loss is calculated by comparing proceeds from disposal received with its carrying amount and is taken to profit or loss.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(d) Intangibles

Software development

Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project which is 5 years.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The amortisation rate used for the class of asset is 20%.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that NT Build becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred in the profit or loss).

Financial Assets

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised as gains in the comprehensive income.

All income and expenses relating to financial assets are recognised in the Statement of Comprehensive Income in the 'other income' or 'other expenses' line item respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

NT Build's trade and most other receivables fall into this category of financial instruments.

Discounting is omitted where the effect of discounting is considered immaterial.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Financial instruments (continued)

Significant receivables are considered for impairment on an individual asset basis when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. When confirmation has been received that the amount is not collectable, the gross carrying value of the asset is written off against the associated impairment provision.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

In some circumstances, NT Build renegotiates repayment terms with customers which may lead to changes in the timing of the payments, NT Build does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets:

- acquired principally for the purpose of selling in the near future;
- designated by the entity to be carried at fair value through profit or loss upon initial recognition; or
- which are derivatives not qualifying for hedge accounting.

Assets included within this category are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or expenses in profit or loss.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Financial instruments (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity. Investments are classified as held-to-maturity if it is the intention of NT Build's Board to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, with revenue recognised on an effective yield basis. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. NT Build's available-for-sale financial assets include listed securities.

Purchases and sales of available-for-sale investments are recognised on settlement date.

All other available-for-sale financial assets are measured at fair value, with subsequent changes in value recognised in other comprehensive income.

Gains and losses arising from financial instruments classified as available-for-sale are only recognised in profit or loss when they are sold or when the investment is impaired.

In the case of impairment or sale, any gain or loss previously recognised in equity is transferred to the Statement of Comprehensive Income.

Losses recognised in prior period Statement of Comprehensive Income resulting from the impairment of debt securities are reversed through the statement, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Financial instruments (continued)

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities in profit or loss.

Financial liabilities

Financial liabilities are recognised when NT Build becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items "finance costs" or "finance income".

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities depending on the purpose for which the liability was acquire

NT Build's financial liabilities include trade and other payables, which are measured at amortised cost using the effective interest rate method.

Impairment of financial assets

At the end of the reporting period NT Build assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance account, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Financial instruments (continued)

Available-for-sale financial assets

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to other comprehensive income.

(f) Impairment of non-financial assets

At the end of each reporting period NT Build determines whether there is evidence of impairment indicator for nonfinancial assets.

Where this indicator exists and regardless of indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount for the assets is estimated.

The recoverable amount of an asset is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

(g) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(h) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the Statement of Cash Flows and are presented within current liabilities on the Statement of Financial Position.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Trade Receivables

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that NT Build will not be able to collect all amounts due according to the original terms. Objective evidence of impairment include financial difficulties of the debtor, default payments or debts more than 90 days overdue. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

From time to time, the entity elects to renegotiate the terms of trade receivables due from customers with which it previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and are not, in the view of board members, sufficient to require the derecognition of the original instrument.

(j) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to NT Build prior to the year end and which are unpaid. Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to NT Build. Accounts payable are normally settled within 30-60 days.

(k) Long Service Leave Benefits Provisions

(i) Long Service Leave Benefits Expense

Employees and contractors who are registered with NT Build accrue 65 days (13 weeks) long service leave after they have been credited with 2,200 qualifying service days (equivalent to 10 years) in the building and construction industry for service after 1 July 2005. Workers receive credit of 6.5 days long service leave for each 220 days (1 year) worked.

Leave may be claimed after the employee or contractor has been credited with a total of 65 days of long service leave for the first time or they have been credited with 32.5 days of additional long service credits after the employee or contractor was credited with 65 days of long service leave.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(k) Long Service Leave Benefits Provisions (continued)

(ii) Accrued Long Service Leave Benefits Liability

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees and contractors to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wage levels, experience of employee departures and periods of service. Expected future payments are discounted using appropriate asset based rate at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated cash outflows.

(l) Income Tax

As a public authority constituted under a law of the Northern Territory, the income of NT Build is exempt from income tax under Div 50-25 of the Income Tax Assessment Act 1997 and no charge for income tax expense is required.

(m) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to NT Build are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for that period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that NT Build will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(n) Revenue and other income

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and specific criteria relating to the type of revenue as noted below, have been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates

All revenue is stated net of the amount of goods and services tax (GST).

Interest revenue

Interest is recognised using the effective interest method.

Rendering of services

Revenue in relation to rendering of services is recognised depending on whether the outcome of the services can be measured reliably. If this is the case then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably measured then revenue is recognised to the extent of expenses recognised that are recoverable.

(o) Long service levy

A two tier levy regime is applied for the calculation of the long service levy on all eligible construction projects undertaken in the Northern Territory.

1. A 'standard' prescribed levy rate is applied to the first $1 billion of the projects construction costs. The following 'standard' levy rates apply:
    - 0.1% on projects started from 7/4/2014 - regardless of completion date;
    - 0.3% on projects started from 1/4/2012 to 6/4/2014 - regardless of completion date;
    - 0.4% on projects started from 1/7/2009 to 31/3/2012 - regardless of completion date; and
    - 0.5% on projects started from 1/7/2005 to 30/6/2009 - regardless of completion date.

continued: Notes to the financial statements - 30 June 2017

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(o) Long service levy (continued)

The levy rates listed above are applicable for all eligible construction projects of at least:

- $1 million or more in value for projects that commenced on or after 7 April 2014 or
- $200,000 or more in value for projects that commenced between 1 July 2005 and 6 April 2014, regardless of completion date.

2. A project specific levy rate, determined by the responsible Minister and informed by actuarial advice, is applied to the projects that exceed the $1 billion threshold.

(p) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows in the Statement of Cash Flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as an operating cash flow.

(q) Critical accounting estimates and judgments

NT Build make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(q) Critical accounting estimates and judgments (continued)

The significant estimates and judgements made have been described below.

Long service leave benefits - Note 1(k), Note 1(s), Note 10(a): Provisions

Non-current liabilities in respect of long service leave benefits are measured as the present value of estimated future cash outflows based on the appropriate asset based rate, estimates of future salary and wage levels and employee periods of service. The accuracy of provisions is the key estimate included in these financial statements as noted in Note 10(a).

Allowance for impairment losses - Note 1(f), 5: Trade and other receivables

The value of the provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the aging of receivables, historical collection rate and specific knowledge of the individual debtors financial position.

(r) Going concern

The financial report has been prepared on a going concern basis. Following the net loss of $17,392,335 recorded by the Scheme in the 2015-16 reporting period, the Board continued to proactively monitor the financial solvency of the Scheme through the use of regular actuarial advice (including the annual liability valuation and triennial review mechanism) and the review of its investment and accounting policies.

The adoption of a change in accounting estimate (of using an asset based discount rate in lieu of the risk-free discount rate), together with the income from investments (specifically, the Movement in Market Value) during the 2016-17 reporting period has strengthened the Scheme's net financial position in comparison to the 2015-16 period.

While the Scheme currently has a moderate surplus, it is predicted to continue to gradually decline over the following years as growth in liabilities continue to accrue at a greater rate than expected income. The underlying concern expressed by the actuary, in his 2017 triennial actuarial review that the current levy rate of 0.1% is well below the break-even rate, remains.

Notwithstanding the concerns, the Board remains satisfied that adequate governance practices and review mechanisms are in place for the ongoing monitoring of the financial sustainability of the Scheme.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(s) Change in accounting estimates

During the year NT Build changed its accounting estimate in relation to the discount rate used in the calculation of the scheme's portable long service leave liability. In previous reporting periods the Actuary utilised the prevailing Commonwealth government bond rate as the basis for the discount rate applied to the liability's calculation, reported as 2% for the year ended 30 June 2016.

The Actuary has now determined a rate based on an estimate of the return on invested assets which directly back the scheme's liabilities is a more appropriate basis. For the year ended 30 June 2017, the Actuary has determined an appropriate asset-based discount rate is 6%.

This change has been implemented as the NT Build Board are of the opinion that it will provide a more relevant and reliable representation of the portable long service leave liability. The revised estimate had the impact of decreasing long service leave liability expense and liability by $10.2M, in the current period.

(t) Adoption of new and amended accounting standards

During the current year, the following standards became mandatory and have been adopted retrospectively by NT Build:

- *AASB 124 Related Party Disclosures*

This standard applies to the not-for-profit sector for the first time in 2016-17. The accounting standard requires disclosures about the remuneration of key management personnel, transactions with related parties, and relationships between parent and controlled entities. For any such transactions, disclosures will include the nature of the related party relationship, as well as information about those transactions' terms/conditions and amounts, any guarantees given/received, outstanding receivables/payables, commitments, and any receivables where collection has been assessed as being doubtful.

Several other amending standards and AASB interpretations have been issued that apply to the current reporting periods, but are considered to have no impact on public sector reporting.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(u) New Accounting Standards and Interpretations Issued but not yet Effective

At the date of authorisation of the financial statements, the following standards and interpretations were in issue but are not yet effective and are expected to have a potential impact on future reporting periods:

- *AASB 16 Leases*

AASB 16 Leases is effective for annual reporting periods beginning on or after 1 January 2019 and will be reported in these financial statements for the first time in 2019-20. When the standard is effective it will supersede AASB 117 Leases and requires the majority of leases to be recognised on the balance sheet.

For lessees with operating leases, a right-of-use asset will now come onto the balance sheet together with a lease liability for all leases with a term of more than 12 months, unless the underlying assets are of low value. The Statement of Comprehensive Income will no longer report operating lease rental payments, instead a depreciation expense will be recognised relating to the right-to-use asset and interest expense relating to the lease liability.

While for lessors, the finance and operating lease distinction remains largely unchanged. For finance leases, the lessor recognises a receivable equal to the net investment in the lease. Lease receipts from operating leases are recognised as income either on a straight-line basis or another systematic basis where appropriate. Consequently, it is expected that approximately $138,109 in operating lease commitments will be required to be recognised in the balance sheet through a lease liability and corresponding right to use asset from 2019-20 in accordance with AASB 16 Leases. In the Statement of Comprehensive Income the operating lease expense will be replaced with a depreciation expense relating to the right to use asset and interest expense relating to the lease liability. These cannot be quantified at this time.

- *AASB 1058 Income for not-for-profit entities and AASB 15 Revenue from contracts with customers*

AASB 1058 Income for Not-for-Profit Entities and AASB 15 Revenue with Contracts with Customers are effective for annual reporting periods beginning on or after 1 January 2019 and will be reported in these financial statements for the first time in 2019-20.

Under the new AASB 1058 Income for Not-for-Profit Entities, revenue from grants and donations will be recognised when any associated performance obligation to provide goods or services is satisfied, and not immediately upon receipt as currently occurs. Consequently, more liabilities will be recognised in the balance sheet after adoption of this standard.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(u) New Accounting Standards and Interpretations Issued but not yet Effective (continued)

AASB 1058 clarifies and simplifies income-recognition requirements that apply to not-for-profit entities in conjunction with AASB 15 Revenue from Contracts with Customers.

While the full impacts are yet to be determined, potential impacts identified include:

- Grants received to construct or acquire a non-financial asset will be recognised as a liability, and subsequently recognised as revenue as the performance obligations under the grant are satisfied. At present, such grants are recognised as revenue on receipt.
- Grants with an enforceable agreement and sufficiently specific performance obligations will be recognised as revenue progressively as the associated performance obligations are satisfied. At present, such grants are recognised as revenue on receipt.
- Grants that have an enforceable agreement but no specific performance obligations but have restrictions on the timing of expenditure will also continue to be recognised on receipt as time restriction on the use of funds is not sufficiently specific to create a performance obligation.
- Grants that are not enforceable and/or not sufficiently specific will not qualify for deferral, and continue to be recognised as revenue as soon as they are controlled.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods, but are considered to have limited impact on future financial reporting.

2 OTHER INCOME

	2017	2016
	$	$
Interest received	108 829	146 455
Investment income	3 761 225	2 993 323
Movement in equity investments	5 018 935	(3 118 030)
Manager fee rebate	192 424	181 707
Reciprocal income	3 946 166	2 127 299
	13 027 579	2 330 754

The first two distributions and the management fee rebates were reinvested during the year.

3 EXPENSES

	2017	2016
	$	$
Depreciation and amortisation		
- property, plant and equipment	80 197	1 073
Remuneration of auditor		
- auditing the financial report	21 907	18 545
Fees and Allowances		
- board member fees	56 924	45 518

4 CASH AND CASH EQUIVALENTS

	2017	2016
	$	$
Cash on hand	200	200
Cash at bank	144 795	1 870 499
Short term bank deposits	2 554 529	4 080 290
	2 699 524	5 950 989

Reconciliation of cash

Cash and cash equivalents reported in the Statement of Cash Flows are reconciled to the equivalent items in the Statement of Financial Position as follows:

	2017	2016
	$	$
Cash and equivalents	2 699 524	5 950 989

5 TRADE AND OTHER RECEIVABLES

	2017 $	2016 $
Current		
Trade receivables	1 066 082	719 953
Provision for impairment	(8 428)	-
Prepayments	54 520	27 854
Accrued levy contributions	74 587	69 033
Accrued interest	7 391	4 051
	1 194 152	820 891

Credit risk

NT Build has no significant concentration of credit risk with respect to any single counterparty or group of counterparties. The class of assets described as 'trade and other receivables' is considered to be the main source of credit risk related to NT Build.

On a geographical basis, NT Build has significant credit risk exposures in Australia given the substantial operations in this region.

The following table details NT Build's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between NT Build and the levy payer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to NT Build.

5 TRADE AND OTHER RECEIVABLES CONTINUED

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount $	Past due and impaired $	Past due but not impaired (days overdue) Current $	30 $	30 - 60 $	> 60 $	Instalment $
2017							
Trade and term receivables	1 066 082	8 428	253 671	87 394	6 633	116 775	593 181
Total	**1 066 082**	**8 428**	**253 671**	**87 394**	**6 633**	**116 775**	**593 181**
2016							
Trade and term receivables	719 953	-	392 679	346	23 625	61 516	241 787
Total	**719 953**	**-**	**392 679**	**346**	**23 625**	**61 516**	**241 787**

The other classes of receivables do not contain impaired assets.

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

6 OTHER FINANCIAL ASSETS

	2017	**2016**
CURRENT	**$**	**$**
MLC (NCIT) Moderate Trust	82 746 655	74 238 251

(a) Breakdown of investment split

	2017	**2016**
- Australian Shares	29%	28%
- Global Shares	34%	34%
- Bonds	33%	34%
- Property Securities	4%	4%

continued: Notes to the financial statements - 30 June 2017

7 PROPERTY, PLANT AND EQUIPMENT

	2017	2016
	$	$
Furniture, fixtures and fittings		
At cost	30 223	30 223
Accumulated depreciation	(29 634)	(28 971)
Total furniture, fixtures and fittings	**589**	**1 252**
Office equipment		
At cost	12 181	12 181
Accumulated depreciation	(12 181)	(12 181)
Total office equipment	**-**	**-**
Computer equipment		
At cost	4 642	4 642
Accumulated depreciation	(4 642)	(4 642)
Total computer equipment	**-**	**-**
Leasehold improvements		
At cost	297 052	297 052
Accumulated amortisation	(297 052)	(297 052)
Total leasehold improvements	**-**	**-**
	589	**1 252**

7 PROPERTY, PLANT AND EQUIPMENT CONTINUED

(a) Movements in carrying amounts of property, plant and equipment

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year:

	Furniture, fixtures & fittings $	Total $
Year ended 30 June 2017		
Balance at the beginning of year	1 252	1 252
Depreciation expense	(663)	(663)
Balance at the end of the year	**589**	**589**
Year ended 30 June 2016		
Balance at the beginning of year	2 325	2 325
Depreciation expense	(1 073)	(1 073)
Balance at the end of the year	**1 252**	**1 252**

8 INTANGIBLE ASSETS

	2017 $	2016 $
Intangible assets under development cost	-	318 025
NET CARRYING VALUE	-	318 025
Intangible assets cost	397 675	-
Accumulated amortisation and impairment	(79 535)	-
NET CARRYING VALUE	318 140	-
Total Intangibles	**318 140**	**318 025**

8 INTANGIBLE ASSETS CONTINUED

(a) Movements in carrying amounts of intangible assets

	Intangible assets under development	**Intangible assets**	**Total**
	$	**$**	**$**
Year ended 30 June 2017			
Balance at the beginning of the year	318 025	-	318 025
Additions	-	79 650	79 650
Transfers	(318 025)	318 025	-
Amortisation	-	(79 535)	(79 535)
Closing value at 30 June 2017	**-**	**318 140**	**318 140**

9 TRADE AND OTHER PAYABLES

	2017	**2016**
	$	**$**
CURRENT		
Unsecured liabilities		
Trade payables	329 836	113 293
Other payables	182 690	247 421
	512 526	360 714

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

10 PROVISIONS

	2017 $	2016 $
Current	7 800 000	6 700 000
Non-current	48 162 000	55 912 000
	55 962 000	**62 612 000**

Movement in carrying amounts

	2017 $	2016 $
OPENING BALANCE	62 612 000	45 341 000
Actuarial valuation adjustment - based on risk-free discount rate	4 418 000	17 271 000
Actuarial valuation adjustment - due to change to asset-based discount rate	(11 068 000)	-
NET ACTUARIAL ADJUSTMENT	(6 650 000)	17 271 000
	55 962 000	**62 612 000**

(a) Actuary valuation adjustment

The NT Build Long Service Leave liability valuation was carried out on 4 September 2017 by Cumpston Sarjeant Pty Ltd, Consulting Actuaries, in respect of the year ended 30 June 2017.

For each future year the amounts of entitlement expected to be paid in service and on termination of membership have been determined by making a projection based on assumed rate of claiming benefits in service, rates of death, retirement, and resignation, and rate of salary escalation. The resulting cash flows have then been converted to a present value by discounting from the expected date of payment to the valuation date at the assumed interest rate.

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

10 PROVISIONS CONTINUED

(a) Actuary valuation adjustment (continued)

The changed approach to setting the discount rate this year (from risk-free to asset-based) has had a large impact on the liability. The change in approach has reduced the liability by $10.1M or 17%. (By comparison, if the liability at 2017 was calculated using the 2017 risk-free discount rate, it would have been $67.030M including expenses, $11.1M higher than that using the asset-based discount rate.)

In performing the valuation the following assumptions were made by the Actuary:

- An asset-based discount rate of 6% used when valuing NT Build Scheme liabilities under AASB137 Provisions, Contingent Liabilities and Contingent Assets;
- Benefit growth rate of 3.5% per annum, consistent with Department of Treasury and Finance’s expectations for future salary growth in the Territory, and external forecasts;
- Exit rates based on experience in NT Build, similar schemes and more general population measures;
- Benefits assumed to be paid immediately when claimed however vested benefits may not be immediately claimed and are assumed to paid up to 4 years from vesting;
- The proportion of workers eligible to claim is assumed to vary with service as workers with interstate service may claim benefits on exit with fewer service credits and 100% eligibility is assumed by 1,100 days due to payment on deregistration vesting at that point;
- Leave will be taken at rates consistent with scheme experience with allowance for differing rates of leave for the approximately 49% of workers with some indication of interstate service on their records;
- 30% of inactive members will reactivate;
- Allowance for future scheme administration expenses of 12% of accrued leave liability;
- Estimate about 1.006 million days of service credits will be reported in future in respect of past reporting periods, as a consistent pattern of delay in reporting service credits over time has emerged and has become an enduring feature of the scheme.

10 PROVISIONS CONTINUED

(a) Actuary valuation adjustment (continued)

The most significant elements in the revised valuation include:

- Changes in the economic assumptions had a net effect of decreasing liability by $13.3M for pre-16 service;
- Experience gains/losses during the year included:
    - lower benefit rate growth on 1 July 2017 than assumed, being 1.7% compared to 4.0% assumed, with a decrease in liability as a result (-$1.1M);
    - benefit payments slightly higher than assumed, meaning lower remaining service credits and liability than assumed (-$0.5M).
    - other changes during the year, including a much higher turnover of short-duration workers (particularly Inpex workers) in the last year than expected, leading to a lower liability compared to expectations in 2016 (-$3.0M);
- There is a large 2016/17 additional liability, associated with high levels of service reporting due to Inpex LNG project, but also related to workers with increasing average service length and hence a higher probability of reaching benefit entitlement.

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

Sensitivity analysis

The re-entry rate is an important determinant of eventual liability and there is moderate uncertainty to the assumption that 30% of inactive members will reactivate. For different outcomes in the range 20-40% reactivation the liability may change by up to 4%, with higher reactivations leading to higher liability. Withdrawal rates for active members from the Scheme is also moderately important in determining liability. If withdrawal rates for active members decreased by 25% the liability would increase by about 4%. Conversely, if withdrawal rates were increased by 50% the liability would decrease by 7%. Other factors that may also affect the uncertainty of the valuation estimate include; future benefit rate inflation, discount rate variance and unreported or other data adjustments to service credits.

continued: Notes to the financial statements - 30 June 2017

10 PROVISIONS CONTINUED

(b) Reconciliation of current year movement

The following reconciliation details the current year actuary movement based on the above assumptions.

	$ (Million)
LIABILITY AT 30 JUNE 2016 EXCLUDING EXPENSES	54.0
Interest on liability @ 2.0% for one year to 2017	1.1
Expected payments during 2016/17 from accrued liability at 2016	(3.2)
EXPECTED LIABILITY EXCLUDING EXPENSE AT 2017 FOR PRE-2016 SERVICE	51.9
Changes in actuarial basis	
Change in discount rate from 2.0% pa to 6.0% pa	(10.1)
Change in long term benefit rate growth from 4% to 3.5% pa	(0.8)
Experience gains/losses	
Benefit payments higher than expected	(0.5)
Benefit rate increase on 1/7/2017 lower than expected	(1.1)
Other experience gains/losses	(3.0)
LIABILITY AT JUNE 2017 FOR SERVICE TO JUNE 2016, EXCLUDING EXPENSES	36.4
Liability for service accruals in 2016/17	13.6
TOTAL LIABILITY EXCLUDING EXPENSES AT 30 JUNE 2017	50.0
Liability for expenses @ 12% of liability	6.0
Total liability including expenses at 30 June 2017	**56.0**

11 OTHER LIABILITIES

	2017	2016
	$	$
CURRENT	7 918	489 643
Amounts received in advance	**7 918**	**489 643**

12 RESERVES

	2017	2016
	$	$
IMPLEMENTATION FUNDING		
Opening balance	296 867	296 867
Total reserves	**296 867**	**296 867**

In 2005, when the NT Build office was established, the Office of the Commissioner for Public Employment (OCPE) provided the above funds for the 'fitout' of the NT Build offices. These were used to renovate the existing building and refurbish the office accordingly. The amount was transferred to NT Build from OCPE and treated as an Equity transfer.

13 CAPITAL AND LEASING COMMITMENTS

(a) Operating lease expiring in 3 years

NT Build leases property under a non-cancellable operating lease expiring in 5 years. The lease provides NT Build with a right of renewal for a further 5 years, at which time all lease terms are renegotiated. NT Build also leases computer equipment and motor vehicles under non-cancellable operating leases. NT Build entered into a software licencing operating lease expiring in 5 years with a right of renewal for a further 5 years, however this agreement may be terminated by either party by giving 6 months notice. Future operating lease commitments not recognised as liabilities are payable as follows:

	2017	2016
	$	$
Minimum lease payments under non-cancellable operating leases:		
- within one year	183 118	208 309
- later than one year and not later than five years	265 006	502 735
- later than five years	-	-
	448 124	**711 044**

14 FINANCIAL RISK MANAGEMENT

NT Build is exposed to a variety of financial risks through its use of financial instruments.

This note discloses NT Build's objectives, policies and processes for managing and measuring these risks.

NT Build's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

NT Build does not speculate in financial assets.

The most significant financial risks to which NT Build is exposed to are described below:

Specific risks

- Market risk - cash flow interest rate risk and price risk
- Credit risk
- Liquidity risk

Financial instruments used

The principal categories of financial instrument used by the NT Build are:

- Trade receivables
- Cash at bank
- Investments in listed shares
- Trade and other payables

Objectives, policies and processes

The Board has overall responsibility for the determination of risk management objectives and policies. Whilst retaining ultimate responsibility, in December 2015 the Board established a Finance, Risk and Audit (FRA) Sub-committee. This FRA Sub-committee, which consists of three members and met twice during the 2016-17 reporting period, is charged with providing reasonable assurance to the Board that NT Build's core business goals and objectives are being achieved in an efficient and economical manner, within an appropriate framework of internal control and risk management. The Committee also provides strategic oversight and focus on the key financial and strategic risks and controls across NT Build but does not replace the appropriate function of the Board.

14 FINANCIAL RISK MANAGEMENT CONTINUED

Objectives, policies and processes (continued)

The NT Build staff management team has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies within the adopted framework. The Board's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of NT Build where such impacts may be material. The Board receives regular reports with monthly updates from the Registrar through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. Further details regarding these policies are set out below.

The table below reflect maturity analysis for financial assets.

	Weighted average effective interest rate		Floating interest rate		Within 1 year	
	2017 %	**2016 %**	**2017 $**	**2016 $**	**2017 $**	**2016 $**
Financial assets - cash flows realisable						
Cash and cash equivalents	**2.40**	3.40	**144 995**	1 870 699	**2 554 529**	4 080 289
Trade, term and loans receivables	**-**	-	**1 128 286**	790 675	**-**	-
Other investments	**7.20**	6.20	**82 746 655**	74 238 251	**-**	-
Total anticipated outflows			**84 019 936**	76 899 625	**2 554 529**	4 080 289

	Total	
	2017 $	**2016 $**
Financial assets - cash flows realisable		
Cash and cash equivalents	**2 699 524**	5 590 988
Trade, term and loans receivables	**1 128 286**	790 675
Other investments	**82 746 655**	74 238 251
Total anticipated outflows	**86 574 465**	80 979 914

14 FINANCIAL RISK MANAGEMENT CONTINUED

The table below reflect an undiscounted contractual maturity analysis for financial liabilities.

Financial liability maturity analysis - Non-derivative

	Within 1 year		Total	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Financial liabilities due for payment				
Trade and other payables (excluding estimated annual leave)	512 527	360 714	512 527	360 714
Total contractual outflows	**512 527**	**360 714**	**512 527**	**360 714**

The timing of expected outflows is not expected to be materially different from contracted cashflows.

14 FINANCIAL RISK MANAGEMENT CONTINUED

(a) Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligations resulting in the Board incurring a financial loss. Credit risk arises from cash assets and deposits with financial institutions and investment institutions, as well as credit exposures to NT Build's outstanding receivables and committed transactions.

NT Build has limited credit risk exposure (risk of default). In respect of any dealings with obligations external to Government, the Board has adopted a policy of only dealing with credit worthy organisations and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

Financial instruments that potentially subject NT Build to a concentration of credit risk consist of cash and cash equivalents and other investments. The credit risk for these liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents NT Build's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

The receivables of NT Build arise as a result of a statutory obligation on various entities undertaking building and construction work of $1 million or more in value for projects that started on or after 7/4/2014, or $200,000 or more in value for projects that started before 7/4/2014, regardless of completion date. As a result, NT Build cannot implement any credit policies beforehand to ensure that individual risk on each customer is minimised.

The maximum exposure to credit risk for trade receivables at the end of the reporting period by type of payment terms is as follows:

	2017	**2016**
Type of payment terms	**$**	**$**
Instalment	593 181	241 787
Non - Instalment	472 901	478 165
	1 066 082	**719 952**

continued: Notes to the financial statements - 30 June 2017

14 FINANCIAL RISK MANAGEMENT CONTINUED

(b) Fair value estimation

The fair values of financial instruments categorised by level of inputs used to measure fair value are:

	2017		2016	
	Net carrying value	Net fair value	Net carrying value	Net fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	2 699 524	2 699 524	5 950 988	5 950 988
Trade and other receivables	1 194 152	1 128 286	820 890	790 675
Financial assets at fair value through profit or loss:				
Investments - designated	82 746 655	82 746 655	74 238 251	74 238 251
Total financial assets	**86 640 331**	**86 574 465**	**81 010 129**	**80 979 914**
Financial liabilities				
Trade and other payables	512 831	512 527	360 714	360 714
Total financial liabilities	**512 831**	**512 527**	**360 714**	**360 714**

There were no changes in valuation techniques during the period.

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposures in existence at the end of the reporting period.

An increase of 100 basis points or a decrease of 100 basis points would have increased equity and the net surplus by the amounts shown below. This analysis assumes that other variables are held constant.

	Surplus		Equity	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
2017	854 464	854 464	854 464	854 464
2016	801 892	801 892	801 892	801 892

The movements in surplus are due to higher interest costs from variable rate debt and cash balances.

14 FINANCIAL RISK MANAGEMENT CONTINUED

(b) Fair value estimation (continued)

The movements in equity are due to an increase in the fair value of derivative instruments designated as cash flow hedges.

The net exposure at the end of the reporting period is representative of what NT Build was and is expecting to be exposed to at the end of the next twelve months.

The sensitivity analysis is performed on the same basis as in 2016.

15 CONTINGENCIES

Contingent assets

Under section 33(4) of the *Construction Industry Long Service Leave and Benefits Act*, the Minister is to determine the levy percentage on construction projects in excess of $1 billion. Generally, the levy collection mechanism for such large projects is that these types of projects typically span several years and by the time the project reaches completion the amount of levy that is due may be quite substantial.

Although a project of this value has commenced, the Minister has yet to determine the applicable levy rate and as such any likely income to be received cannot at this time be reliably measured. For a relatively small Scheme such as NT Build, the accrual of a large unfunded liability poses a significant cash flow and solvency burden on the Scheme.

An initial levy payment in respect of the first $1 billion of the project value has been paid (refer 2011-12 Financial Statements). The project continues to accrue liabilities, but is unlikely to pay any further levy until practical completion. While the actual amount of further levy to be paid has not yet been determined, it is broadly actuarially estimated to likely to be in the range of $10-25 million. While it should be noted that this range is speculative and is not intended to be interpreted as the actual amount of levy payable, it seeks to emphasise the substantial as yet unfunded liability the Scheme is burdened with.

Notwithstanding that a receivable has not been recognised, NT Build has recorded;

- as an expense such benefit claims already paid to date to registered employees and contractors working on this project; and
- within its provision for long service leave benefits, recognised entitlements for registered employees and contractors working on this project that continue to accrue.

continued: Notes to the financial statements - 30 June 2017

16 RELATED PARTIES

(i) Related Parties

NT Build is a government administrative entity and is wholly owned and controlled by the Territory Government. Related parties of NT Build include:

- the Portfolio Minister and key management personnel (KMP) because they have authority and responsibility for planning, directing and controlling the activities of NT Build directly; and
- spouses, children and dependants who are close family members of the Portfolio Minister or KMP; and
- all public sector entities that are controlled and consolidated into the whole of government financial statements; and
- any entities controlled or jointly controlled by KMP's or the Portfolio Minister or controlled or jointly controlled by their close family members.

(ii) Key Management Personnel (KMP)

NT Build is a statutory corporation established by the *Construction Industry Long Service Leave and Benefits Act* (the CILSLB Act) to provide a portable long service leave benefit scheme to building and construction workers in the Northern Territory. It is not an agency within the meaning of the *Financial Management Act* or the *Public Sector Employment and Management Act*.

Under the Administrative Arrangements Order in force for the period ended 30 June 2017 the Department of Trade, Business and Innovation had the principal responsibility for the general administration of the CILSLB Act. However, in accordance with the CILSLB Act, the Board holds the specific responsibility for the day-to-day management of the Scheme and for providing advice and making recommendations to the Minister about the operation of the legislation.

Key management personnel of NT Build are those persons having authority and responsibility for planning, directing and controlling the activities of NT Build. These include the Minister for Trade, Business and Innovation, The Hon Michael Gunner MLA, the Registrar, Mr Theo Tsikouris and the NT Build Board as listed below.

The names of the members of the Board who held office during the year are Mr Michael Martin OAM, Mr Craig Graham, Mr Dick Guit, Mr Michael Haire, Mr David Malone, Mr Michael Milatos and Ms Rosemary Campbell.

16 RELATED PARTIES CONTINUED

(ii) Key Management Personnel (KMP) (continued)

Mr Haire's initial appointment ceased in October 2016, however he was subsequently reappointed in November 2016 for a further period of five years.

Mr Graham resigned his appointment in April 2017.

Attendance of meetings

	Eligible Meetings*	Meetings Attended
Craig Graham	16	10
Dick Guit	18	12
Michael Haire	17	8
David Malone	18	13
Michael Milatos	18	10
Michael Martin	18	17
Rosemary Campbell	18	17

*Excludes 'other' business involving general Board or Chair participation. Such as: participation on subcommittees, attendance at National Conference/Forums, official functions, travelling days, Ministerial discussions and ad hoc general meetings attended by the Chair - lawyer, auditor-general, accountant, registrar, etc.

(iii) Remuneration of Key Management Personnel

The details below exclude the salaries and other benefits of Minister for Trade, Business and Innovation as the Minister's remunerations and allowances are payable by the Department of the Legislative Assembly and consequently disclosed within the Treasurer's Annual Financial Statements.

The details below also exclude the salaries and other benefits of a Board Member who is an employee of the Department of Treasury and Finance as their remunerations and allowances are payable by the Department of Treasury and Finance and consequently disclosed within the Department of Treasury and Finance Annual Financial Statements.

continued: Notes to the financial statements - 30 June 2017

16 RELATED PARTIES CONTINUED

(iii) Remuneration of Key Management Personnel (continued)

The aggregate compensation of key management personnel of NT Build is set out below:

	2016-17 $000
Short-term benefits	252
Post employee benefits	30
Long-term benefits	-
Termination benefits	-
Total	**282**

(iv) Related party transactions: Transactions with Northern Territory Government controlled entities

NT Build's primary ongoing sources of funding are from the collection of a levy imposed on eligible construction work undertaken in the Territory and investment earnings. No general allocation of funding is provided to NT Build through the Territory Budget or the Central Holding Authority.

The following table provides quantitative information about related party transactions entered into during the year with all other Northern Territory Government controlled entities.

	Revenue from related parties **2017** **$000**	**Revenue from related parties** **2017** **$000**	**Amounts owed by related parties** **2017** **$000**	**Amounts owed by related parties** **2017** **$000**
Related Party				
All NTG Government departments	-	1 033	-	97

16 RELATED PARTIES CONTINUED

(iv) Related party transactions: Transactions with Northern Territory Government controlled entities (continued)

NT Build's transactions with other government entities are not individually significant.

Other related party transactions are as follows:

Given the breadth and depth of Territory Government activities, related parties will transact with the Territory Public sector in a manner consistent with other members of the public including paying stamp duty and other government fees and charges and therefore these transactions have not been disclosed.

The CILSLB Act indemnifies the NT Build Board Members and Registrar against any civil or criminal liability by the person or the Board in exercising, in good faith, a power or performance of a function under the Act. No other guarantees or indemnities have been given or received.

All other related party transactions of $10,000 or more have been provided in the table below.

	Transaction value for year ended 30 June	Net receivable/ (payable) as at 30 June	Commitments as at 30 June
	2017 **$000**	**2017** **$000**	**2017** **$000**
Transaction type			
Sponsorship	0.40	0.40	9.60

continued: Notes to the financial statements - 30 June 2017

17 CASH FLOW INFORMATION

(a) Reconciliation of result for the year to cashflows from operating activities

Reconciliation of net income to net cash provided by operating activities:

	2017	2016
	$	$
Net surplus/(deficit) for the year	12 609 565	(17 392 335)
Cash flows excluded from net surplus attributable to operating activities Non-cash flows in profit/(loss):		
- depreciation	80 197	1 073
- movement in market value of investments	(5 018 934)	3 118 030
- manager fee rebate	(192 425)	(181 706)
- distribution income capitalised	(3 761 225)	(2 993 323)
- scheme liability expenses	(6 650 000)	17 271 000
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	120 924	(289 290)
- (increase)/decrease in other assets	(3 339)	54 919
- (increase)/decrease in prepayments	(26 666)	(14 643)
- (increase)/decrease in income in advance	(481 725)	488 348
- increase/(decrease) in trade and other payables	151 812	58 992
Cashflow from operations	(3 171 816)	121 065

Compilation report

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Compilation Report

30 June 2017

COMPILATION REPORT TO NT BUILD

We have compiled the accompanying general purpose financial statements of NT Build, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes. The specific purpose for which the general purpose financial statements have been prepared is set out in Note 1.

The Responsibility of the NT Build Board Members

The Board Members are solely responsible for the information contained in the general purpose financial statements and have determined that the basis of accounting used is appropriate to meet their needs and for the purpose that the financial statements were prepared.

Our Responsibility

On the basis of the information provided by the directors we have compiled the accompanying special purpose financial statements in accordance with the basis of accounting and APES 315: *Compilation of Financial Information.*

Our procedures use accounting expertise to collect, classify and summarise the financial information, which the Board Members provided, in compiling the financial statements. Our procedures do not include verification or validation procedures. No audit or review has been performed and accordingly no assurance is expressed.

The general purpose financial statements were compiled exclusively for the benefit of the Board Members. We do not accept responsibility to any other person for the contents of the special purpose financial statements.

Adam Dohnt (FCA)

17 November 2017

The accompanying notes form part of these financial statements.

Liability limited by a scheme approved under Professional Standards Legislation

TDH Pty Limited
ABN: 19 087 176 565
Director: Adam Dohnt

State/Territory schemes

- recognised under the National Reciprocal Agreement for the provision of long service in the building and construction industry

Australia Capital Territory

Construction Industry Long Service Leave Authority
Unit 1, 28 Thynne House
Bruce ACT 2617
Tel: (02) 6247 3900
Email: construction@actleave.act.gov.au
Web: www.actleave.act.gov.au

New South Wales

Long Service Corporation
Level 1
19-21 Watt Street
Gosford NSW 2250
Toll Free: 13 14 41
Email: info@longservice.nsw.gov.au
Web: www.longservice.nsw.gov.au

Queensland

QLeave
Level 4
Lutwyche City
543 Lutwyche Road
Queensland 4030
Toll Free: 1800 803 491
Email: member@qleave.qld.gov.au
Web: www.qleave.qld.gov.au

South Australia

Portable Long Service Leave
Level 2
155 Fullarton Road,
Rose Park SA 5067
Tel: (08) 8332 6111
Email: hello@portableleave.org.au
Web: www.portableleave.org.au

Tasmania

TasBuild
Level 3
6 Bayfield Street
Rosny Park TAS 7018
Tel: (03) 6294 0807
Email: secretary@tasbuild.com.au
Web: www.tasbuild.com.au

Victoria

CoInvest
Level 6
478 Albert St
East Melbourne Vic 3002
Toll Free: 1300 COINVEST
Email: info@coinvest.com.au
Web: www.coinvest.com.au

Western Australia

MyLeave Construction Industry Long Service Leave Scheme
Level 3
50 Colin Street
West Perth WA 6005
Toll Free: 1800 198 136
Email: hi@myleave.wa.gov.au
Web: www.myleave.wa.gov.au

Ausleave

Ausleave
A co-operative venture by portable long service leave authorities across Australia
- providing centralised access to information about each state and territory's scheme.

Email: info@ausleave.com.au
Web: www.ausleave.com.au

NT Build – portable long service leave

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